



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Following my minute of 26 June, I said I would minute further on electricity prices.

2. This year's public expenditure situation has deteriorated in recent weeks. You will recall that the previous forecast was for an overshoot of £½ billion on total public spending. It is becoming increasingly clear that local authority capital overspending will, unless we take swift action to contain it, increase this figure by anything between £¼-1¼ billion. Further, the earlier forecast assumed that the miners' strike would be over by the end of July. That assumption is looking increasingly improbable. The strike has cost the public sector about £300 million to date and these costs are mounting at the rate of £30 million a week.

3. We are considering urgently how to deal with the huge overspend on local authority capital. On the costs of the miners' strike, we have so far deferred any action on electricity prices. Given the seriousness of the overall public expenditure I believe that we must now take action.

4. As a direct result of oilburn, the CEGB's costs are now running some 10 per cent higher than was foreseen at the start of the year. To the end of June the miners' strike had cost them some £250 million. While this would fully justify a corresponding 10 per cent increase in electricity prices, it may be argued that at least part of the cost should fall on the Reserve. But I believe we should at least agree to an increase of 6 per cent to all consumers.

5. This is the increase which I believe would be in any case needed next April to validate the decisions on nationalised industries taken at E(A) this morning. Bringing forward the increase in this way would mean that, if the strike lasted another month or so, we would not need another electricity price increase for at least 12 months. Of course if the strike lasted longer we might have to reconsider the position earlier than that.



6. We need to take decisions now to enable the price increase to come into effect at the beginning of September. Bringing forward the increase in this way would of course also bring forward an addition of something rather less than 0.2 percentage points to the RPI. It would generate some £250 million in 1984-85 and so make a valuable contribution to our public expenditure problem; and it should avoid the need for further discussions about electricity price increases in April 1985 in the Public Expenditure Survey.

7. Needless to say, it would be desirable to ensure a reasonable gap between any action we decided to take on local authority capital spending and the announcement of an increase in electricity prices. In any event the latter should be announced by the electricity industry itself and presented as action by the CEGB in respect of the additional cost it is incurring to ensure electricity supplies to its customers.

N.L.

3 July 1984

SECRET

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PRIME MINISTER

Electricity Prices

The Chancellor is proposing bringing forward to September the 6 per cent increase which he considers is necessary anyway from next April. He would like to discuss this with you for 15 minutes before Cabinet.

The Chancellor makes no suggestions on how the agreement of colleagues should be sought. The next stage is surely for him to talk to Mr. Walker (and Mr. Younger has responsibility for electricity prices in Scotland) together with Mr. Tebbit. When we know their positions it will probably be necessary, given the political sensitivity of the issue, to seek the endorsement of a wider group of colleagues. This could be MISC 101 or E(A).

AT

I would do it in 2 stages?

mt

ANDREW TURNBULL

3 July, 1984

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