



Copied to NAT IND
(Steel)

PRIME MINISTER

NATIONALISED INDUSTRIES' EFL FOR 1979-80 AND 1980-81

Fly A
You will have seen Keith Joseph's letter to Geoffrey Howe of 4 March about BSC's inability to pay 1979-80 bills worth about £150 million until 1980-81. You will also have seen David Howell's letter of *See Nat Ind* (29) February about the electricity industry's EFL for 1980-81.

Fly B
Elec + Gas Pricing attached
There seems no defensible alternative to allowing BSC in these exceptional circumstances to transfer £150 million of its EFL for 1979-80 to 1980-81, though I agree with Keith that we should present this separately from the existing 1980-81 EFL of £450 million. The consequent increase in public expenditure (a little over £100 million in Survey prices) makes it even more important to avoid any other increases in EFLs for 1980-81.

I also think we need to reconsider the decisions we took on electricity at E Committee last week in view of the new information. As I understand it, David Howell is in effect saying that if we force the electricity industry to defer £100 million of its payments from this year to 1980-81, which is the effect of limiting the increase in this year's EFL to £200 million, he can see no acceptable way of ensuring that the EFL of £187 million for 1980-81 is made to stick. In all the circumstances I would now be ready to drop all but £20 million of the proposed deferment, provided that the electricity industry agrees on the basis set out below to take steps to live with the EFL for 1980-81. The electricity increase this

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year would then be £280 million (before allowing for the further losses from the steel strike mentioned at the end of Davids's letter which might bring the total to around £300 million). I think we must accept that the industry would on current assumptions need to raise prices in July by about 10 per cent as a minimum in order to achieve the first stage of its financial target and to reduce its capital expenditure by the means David mentions which add up about £40 million. The industry would still be left with about £40 million to absorb next year to remain within the agreed EFL of £187 million for 1980-81.

Now that the electricity story is in the public domain I think we should be ready to publish the electricity figure for 1979-80 in the White Paper at the same time as we publish BSC's transfer of £150 million from 1979-80 to 1980-81. Given the publicity on electricity it would be difficult to defend leaving the present unrealistic figure in the White Paper. We can leave the question whether there should be a separate announcement on electricity before the Budget until we see when the steel strike comes to an end, unless of course, the weekend Press reports mean that we can make an announcement now.

The timetable for the White Paper is now very tight and I propose to make the changes proposed above unless I hear to the contrary by Thursday lunch-time.

I am sending copies of this minute to Members of E Committee, George Younger and to Sir Robert Armstrong.

Acline

P.P. JOHN BIFFEN
4 March 1980

[Approved by the Chief Secretary
and signed in his absence]

4 MAR 1980

