

Mr Hoekman



Denis Walker

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SECRETARY OF STATE FOR ENERGY
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N Sanders Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
LONDON SW1

PM see

2 2 November 1979

Dear Nick,

NCB STRATEGY

My Secretary of State has noted your letter of 29 October to Alistair Pirie in the Chief Secretary's Office about the interest of the Prime Minister in seeing in advance the proposed text of what is to be said in Parliament on the financial strategy for the coal industry.

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In the meantime the Prime Minister might like to see the text of the letter, agreed with the Treasury, which my Secretary of State is intending to send to Sir Derek Ezra on this issue.

I am copying this letter to Alistair Pirie in the Chief Secretary's Office.

Yours ever,

Denis

DENIS WALKER
PRIVATE SECRETARY



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THAMES HOUSE SOUTH
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Sir Derek Ezra MBE
Chairman
National Coal Board
Hobart House
Grosvenor Place
London SW1X 7AE

November 1979

I am writing to set down, in more precise terms than I stated them at the Coal Industry Tripartite discussions, the Government's conclusions on the financial strategy that the Board should follow.

May I start by acknowledging with thanks the cooperation that the Department has received from the Board in reviewing your financial position.

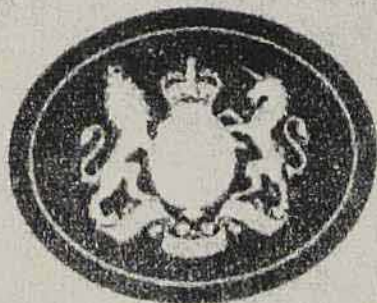
In the shorter and the longer term, it is clear that the country will need to look to an efficient coal industry if we are to avoid undue dependence on imported energy. The basic strategy adopted when Plan for Coal was endorsed therefore continues to be sound: investment in profitable pits to secure an efficient industry capable of a higher level of output. I am glad that, subject to the small reductions that the Board have been able to make, the Government have been able to endorse the investment programme to 1982/83 in the normal way. (My officials have written to the Board giving the agreed capital allocations).

But the Government must also have regard, in the shorter term anyway, to the very important objective of reducing the demands of the nationalised industries on public expenditure. The financial strategy is therefore designed to permit the continued rebuilding of a new industry out of the old whilst progressively reducing financial support for the Board's operations.

The Government will continue to provide social grants and will continue to finance the Redundant Mineworkers' Payments Scheme. As you know, we are now considering the Board's revised proposals on transfer payments and redundancy terms.

Financial support for the industry's operations will be provided on a declining scale in accordance with Appendix B to the Board's Supplement to the Review of Financial Position, as amended by the reductions in external finance that we have recently agreed, ie (at 1978/9 prices):

<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
15	27	51	59



This means that the Board is expected to break-even from 1983/84 after social grants and after interest on the present capital structure. Could I emphasise that the Government attaches the greatest importance to the Board's attaining this objective. If it is possible to reach it earlier the Board should certainly do so. If the Board appear to be encountering difficulty in operating within the external finance figures set out below, the Board will need to take action, by means of cost reductions or increases in prices, to ensure that the figures are not exceeded.

At an appropriate stage in the near future I shall need to announce the objective of break-even from 1983/84 and the phased progress towards it as the Board's formal financial target. My officials will be in touch with yours in due course about the form of words for such an announcement. The external finance requirements within which the Board will be expected to operate are (at 1978/79 prices);

<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
613	570	480	375

The cost, including the cost to the Government, of any improvements in redundancy and transfer terms, if they are in due course agreed, will have to be met from within these figures. At our meeting on 22 October you referred to the question of flexibility in cash limits. I said that this was not a matter on which I could give any assurance and I advised that it was best pursued by the Nationalised Industries Chairmen's Group in connection with the paper they have submitted to the Chancellor.

Within the external finance figures, the Government will be prepared to pay grants as follows:

	£m 1978/79 prices			
	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Social grants	57	57	57	57
Other grants	135	109	28	-
Total	<u>192</u>	<u>166</u>	<u>85</u>	<u>57</u>

The reductions in external finance which we agreed have been reflected in the provision for 'Other grants'. Any grants which may, exceptionally, be agreed in addition to those assumed above would not be allowed to relax the break-even objective as defined in paragraph 6. The Coal Bill will provide for payment of the grants assumed and I shall be considering what upper limit would be appropriate to take account of varying assumptions about, eg inflation. I have also decided, subject to consultation with the European Commission, that the Bill will replace regional grants by grants to cover deficiencies in the Board's profit and loss account.



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The Government have decided that it would not be appropriate to issue Public Dividend Capital to the Board at this stage. But I am giving further consideration in conjunction with my colleagues to the possibility of deferred interest loans; and we shall examine further the other suggestions in your letter of 15 October to John Moore.

The Government will wish to monitor closely the Board's progress towards financial break-even by 1983/84 on the basis of a monthly progress return. For this purpose it is essential for us to agree very quickly the forecasts of unit costs underlying the strategy. I myself should like to have quarterly meetings with you for monitoring. My officials will be discussing arrangements with yours.

I am sure that it is in the best interests of the industry that the objective of financial viability, in the way I have defined it, should be achieved as quickly as possible; and I look forward to following the Board's progress.

D A R Howell