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SUBJECT



10 DOWNING STREET

cc: Hunt  
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bc: CPRS  
Mr. Hoskyns

CDL 19 May 1981

From the Private Secretary

As you know, the Prime Minister held a meeting with your Secretary of State, the Chancellor of the Exchequer and the Chief Secretary this morning to discuss further the question of NCB finances. Sir Robert Armstrong and Robin Ibbs were also present. They had before them your Secretary of State's minute of 14 May.

Mr. Howell recalled that E Committee had decided that the NCB's EFL for 1981/82 should not exceed £1100 million. As regards the figure for capital investment approval, the Committee had been generally sympathetic to the arguments against increasing it beyond the figure of £765 million proposed by the Chief Secretary; but it had been left that agreement on the precise figure should be reached between himself and the Chief Secretary. He had now considered the matter further, and his firm view was that an investment figure of £765 million would involve unacceptable risks. It was substantially less than the investment figure for 1980/81 both in money and volume terms. The NUM took a very close interest in the level of investment in the industry, which they saw as directly affecting the level of employment. If it were to be restricted to only £765 million in 1981/82, the NUM would react sharply; and the prospects for resuming the closure programme and for a reasonable pay settlement in November would be bleak. It was essential to help the moderate elements in the NUM to play a positive role at the NUM's Annual Conference in July by announcing a figure for investment which they would not see as totally unreasonable. He proposed that investment approval should be set at least slightly higher than the figure of £805 million (in money terms) for 1980/81 - at, say, £815 million.

The Chief Secretary said that, contrary to the impression that might have been given at the E Committee meeting the previous week, there was no disagreement between him and Mr. Howell on the basis of the figures. He had proposed an investment figure of £765 million for 1981/82 because that was the level of the existing approval and in the light of all that had happened since that approval was given, he did not believe any addition to it was justified. For it had been expressly agreed the previous autumn when approval for £765 million had been given that it should not be raised unless Ministers were satisfied that the NCB were making satisfactory progress with their finances; it could hardly

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be argued that they were. However, in the light of what Mr. Howell had said, he was now prepared to agree that approval should be raised to £805 million on condition that the EFL should be revised to no more than £1100 million. He recognised that this would be difficult, which made it all the more important that the NCB should take action to improve their performance - for example, by increasing their exports.

The Prime Minister said she agreed that investment approval for 1981/82 should be set at £805 million within an EFL of up to £1100 million, as proposed by the Chief Secretary. The timing of the announcement of these figures should be settled between Mr. Howell and the Chief Secretary.

The following further points were discussed:

- (i) Mr. Howell said that E Committee's decision that the new single grant should be paid after striking profit and loss in the NCB accounts would cause problems with the NUM and would be unnecessarily provocative. He would like to revert to his own proposal that it should be paid before profit and loss are struck. The Prime Minister said that this would mean continuing to mislead the public on the NCB's financial performance, and that the E Committee decision should stand.
- (ii) The Chancellor suggested that the Monopolies and Mergers Commission might be asked to report on the NCB. Mr. Howell said that he agreed this might be a good idea in principle; he would like to consider this as a possible option once the NUM Conference was out of the way.
- (iii) Mr. Ibbs said that, as long as Sir Derek Ezra continued as Chairman of the NCB, he did not believe that the underlying situation would improve. It was important to start thinking about a successor for him now. Mr. Howell said he was already doing so, and he was hoping to start the process of handover in the autumn. He also had it in mind to separate the roles of Chairman and Chief Executive.

I am sending a copy of this letter to John Wiggins (HM Treasury), David Wright (Cabinet Office) and Gerry Spence (CPRS). I am not circulating it to Private Secretaries to other members of E Committee since I believe the Prime Minister will wish to report the conclusions of the meeting very briefly at the meeting of the Committee on Thursday.

*Julian West*  
*Tim Leake*

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