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Prime minister

We are fixing a coal strategy meeting for September before you go abroad.

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

1 August 1983

Dear Secretary of State,

NCB: INVESTMENT AND FINANCING REVIEW 1983

As you know, the National Coal Board is one of the major problem areas in this year's nationalised Industries' Investment and Financing Review. The additional bid of £339 million in 1984-85 and £104 million in 1985-86 (including higher redundancy payments) represents a major challenge to securing reductions below the baseline of at least £500 and £900 million in those years, which we agreed in EA Committee on 14 July.

I hope we shall be able to meet in late September to discuss the NCB along with your other nationalised industries and Departmental programme. It might be helpful if I was to set out, before the recess, some of the areas which I shall want to raise then. These are:-

(a) The rate of pit closures. The options presented to the Government in May by the NCB have a major bearing on external financing requirements. Your IFR submission assumed the slower 'conventional' rate. I understand that substantial savings - upwards of £200 million a year - could be achieved by the faster 'Rapid' rate, although there would clearly be major risks.

(b) Miners pay. The NCB's assumption of falling real wages for miners is encouraging both in terms of NCB's own costs and for public sector pay as a whole. Do you intend to ask the Board to negotiate on this basis?

(c) Prices. We have some sympathy for the principle of bringing NCB prices in line with those of imports, although we shall need to consider whether the NCB's figures are the correct basis of planning. If resource allocation within the energy sector of the economy is to be optimised, economic pricing would, of course, also need to be applied to other fuels. Gas is an example of where these principles point to real increases in prices. I would therefore expect to see substantial EFR reductions (or levy increases) for BGC. Any real reductions in the price of power station coal should also give reductions in the external financial requirement of the electricity industries (whose IFR submissions assume higher prices).

(d) Investment. The Monopolies and Mergers Commission were critical of much NCB investment since 1974 confirming (in paragraph 9.105 to 9.111) that over one-third of expenditure on large projects 'has gone into collieries which are either unprofitable or of doubtful potential profitability'. Expected productivity gains have often not been realised. While the reduction in NCB's bids since last year is welcome, investment levels of £800 - £900 million a year would still be high for an industry in such a parlous state. I appreciate that there are some sensitive areas, linked to the pit closures objective, but I think we should examine the scope for savings of, say £100 - £200 million a year.

(e) Sales of Assets. Can we press the NCB for a more active approach, both to realise cash and get rid of loss-making non-mining activities?

(f) General costs and overheads. As well as the main pit closures, can we look for more savings in NCB's general overheads on R & D, workshops, headquarters, stores levels, working capital etc.

Treasury officials will be in touch with your Department and the Scottish Office, to discuss the scope for savings in the areas set out above.

Clearly many of the main areas ; particularly the rate of closures - will need also to be addressed in broader discussions of coal strategy and the options presented by the NCB's May paper. In his minute to the Prime Minister of 28 July, the Chancellor suggested that colleagues should have at least a first discussion very early in the Autumn. From my point of view, it would certainly be helpful if this was done before we meet for our bilateral (which the public expendidture timetable requires by the first week of October at the latest). No doubt you will, in any case, want to have agreed with colleagues the Government's view on miners pay and coal prices ahead of the

Autumn negotiations. We ought to settle the EFLs for 1984-85 before these are too far advanced, so that the industries negotiate under financial discipline.

A copy of this letter goes to the Prime Minister, to the Secretary of State for Scotland, and to Sir Robert Armstrong.

yours sincerely

for PETER REES
(approved by the Chief Secretary & signed in his absence)

NAT IND
Coal
pt 4

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