



10 DOWNING STREET

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File 175
cc David Casall

From the Private Secretary

25 July 1984

Dear Michael

During the recent discussion on the cost of the coal dispute there was disagreement between your Department and the Treasury on the figures. The paper produced by your Secretary of State on 29 May estimated the net cost at £25m. per week. At the recent meeting, your Secretary of State said he now put the estimate at around £12½m. per week, the main differences being a revision in the gross cost of oil burn from £50m. to £40m. a week plus a larger estimate for the saving on NCB investment.

It would be very helpful to the Prime Minister for these differences to be resolved. If, indeed, the costs are substantially lower than estimated previously, it may help to get this information into the public consciousness in some way as virtually all outside estimates are substantially higher. Most, indeed, are higher even than the original estimate. For example, the recent Greenwell's Bulletin puts the cost per month at £200-250m.

I am copying this letter to David Peretz (HM Treasury) and Peter Gregson (Cabinet Office).

*Your sincerely
Andrew Turnbull*

Andrew Turnbull

Michael Reidy Esq
Department of Energy.

TABLE II

Influences on PSBR Profile in 1984/5

<u>£m</u>	<u>First Half</u>	<u>Second Half</u>
EEC rebate	-400	-650
Asset sales	-600	-1,300
Extra VAT	-50	-1,500
End of N.I.S.	-	+350
	<u>-1,050</u>	<u>-3,100</u>

It should be noted that on a non-seasonally adjusted basis almost the whole of the PSBR is expected to occur in the first half of the year, £6½bn compared with £½bn. The published figure of £4.7bn (£3.4bn seasonally adjusted) for the first quarter of the fiscal year is quite consistent with this estimate.

The miners' dispute is likely to have a further impact on the PSBR profile, as well as putting the total under some pressure if it is not settled fairly soon. Our estimate of the weekly rate of loss for the NCB and the rest of the public sector is shown in Table III.

TABLE III
Weekly Accounting Losses

	<u>£m</u>	
NCB: reduced revenue from lower sales	65	
reduced expenditure	<u>-35</u>	(30)
CEGB: increased expenditure on oil	43	
reduced expenditure on coal	<u>-26</u>	17
British Rail		4
British Steel		4
Police		4
Income tax lost and benefits paid		<u>7</u>
		<u>66</u>

The impact of the dispute on the PSBR will be different from the accounting losses shown above because it will lead to a fall in the NCB's stocks of coal and the CEGB's stocks of coal and oil, which will release finance. The NCB's coal stocks were virtually unchanged in April but the CEGB's coal and oil stocks fell by £130m and £50m respectively. Data for May and June have not yet been published but reductions in stocks are likely to be lower because the CEGB increased its purchases of fuel oil and because the seasonal reduction in the demand for electricity enabled coal stocks to be conserved.

Allowing for the finance released by the fall in stocks, our estimates of the effect of the miners' dispute on the PSBR during April, May and June are £115m, £240m and £200m respectively. If the dispute were to end by the beginning of August, which does not now look likely, there would be a PSBR increase of some £230m in July. The rebuilding of coal stocks by the NCB and CEGB and the continuation, for a few months, of a higher than normal oil burn by the CEGB would continue to raise the PSBR in subsequent months. These additional effects could amount to some £300m, of which £100m would increase the 1985/6 PSBR.

On the assumption that the miners' dispute ends within a month, its total impact on the PSBR this fiscal year will be less than £1,000m, as compared with a contingency reserve of £2½bn for the year as a whole.