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CCND

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29 October 1984

NCB DEFICIT GRANT

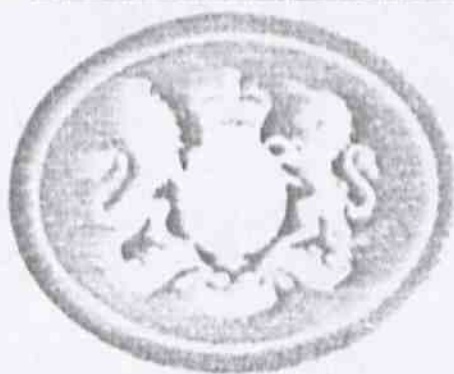
There are two matters concerning the payment of deficit grant to the NCB upon which action will be needed early in the new Parliamentary session.

First, I believe we must bring in an Order under the Coal Industry Act 1980 (as amended) to increase the ceiling on the aggregate amount of deficit grant which we may pay the Board from the present £1,200m to £2,000m, the maximum level possible under the Act. Payments of deficit grant have already reached some £1,000m, and without an Order we would shortly have to stop normal payments of deficit grant to the Board. The need for an Order was noted in the summer Supplementary Estimates, and is necessary before we can pay in full all the deficit grant for which we already have Estimates authority.

Second, we need to make provision in a winter Supplementary Estimate for further payments of deficit grant to the Board. The present Estimates provision is based on the Board's pre-strike estimate of their loss for the year. The Board's outturn loss is bound to be very substantially larger, though the precise figure will depend on when the strike ends. If the strike were to end at the end of this month, the NCB estimate a loss of £1385m. We have no choice but to meet the deficit through grant if the Board is to retain a solvent balance sheet. We cannot however provide for the full extent of the Board's likely loss in the current year in a winter Supplementary. Quite apart from uncertainty over when the strike will end, we can make provision for only about a further £607m within the ceiling provided by the 1983 Act, even after raising the ceiling by Order. We need also to ensure that payments of grants to the NCB in this financial year do not exceed their total EFR. I believe therefore that we should seek provision for a further £607m of deficit grant now, and consider the possible need for yet further provision later on, when we have obtained further legislative authority for deficit grant payments, perhaps in a Coal Industry Bill in the spring. I think this approach is fully defensible in terms of Parliamentary propriety.

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To the extent that increased deficit grant payments substitute for borrowing by the Board, there is no change in public expenditure. As a separate matter, there is, because of the strike, no realistic hope that the NCB can live within its existing EFL. Our officials have already been in touch on this, in the context of the overall cost of the strike.

In terms of Parliamentary handling, we should aim to lay the Deficit Grant Order at about the same time as the winter Supplementary Estimates are sent to the Select Committees. I would intend to draw attention to both the Order and the Supplementary Estimate in a PQ answer, thereby laying the ground for the two to be debated together if necessary. In public and Parliamentary presentation, we can point out that the need for the Order was already foreseen in the Estimates submitted to Parliament before the strike. As regards the Supplementary Estimate, we can say that it is no secret that the strike is having a very damaging effect on the finances of the coal industry, to the long term detriment of those who work in it. As the government has explained in the past, given the state of the NCB's balance sheet, borrowing by the Board is not an acceptable substitute for deficit grant, and the government is therefore seeking additional provision for deficit grant. But we can deflect detailed questioning about the cost of the strike by pointing out that the size of the Supplementary Estimate has been determined by the limits of existing legislative authority, and not by any precise estimate of how much the strike has cost.

I would be grateful to know that you agree with these proposals.

I am copying this letter to the Prime Minister and John Biffen.

PETER WALKER

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