

17

CCNO/1

01-211-6402

Prime Minister;

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

COAL INDUSTRY BILL

Thank you for your letter of 10 April.

with HEA

This goes same way towards the Chancellor's news. Do you wish to re-emphasise the point 15 April 1985 about ending the RMPS, but in general terms rather than with a specific deadline?

DR 18/4 Yes

I agree we should signal to the Board that we now expect a sustained improvement in their financial performance; also that there should be no automatic expectation that we will be prepared to make further deficit grant available in future legislation. But we must recognise the slender basis upon which the figures are built, as I warned in my letter of 28 March. Because of this uncertainty, and because we have gone for figures lower than those suggested by Ian MacGregor, there is a danger, which you recognise in your letter, that the Board will not be able to contain their losses over the next few years to the figures in the Bill, and that we will be obliged to find ways of funding further losses.

We need therefore to present the Bill as a financial framework within which we expect the Board to work, and say that we have no present plans to continue deficit grant beyond 1986/87, but without boxing ourselves into commitments which we may not be able to fulfil.

I understand that his views were to set a limit in line on the present redundancy payments

I also agree we should not be locked into the present RMPS for an indefinite period. However, we have received no indication yet from Ian MacGregor of how he views the industry's needs and prospects beyond the two-year period covered by the Bill. Until we have assessed his detailed views, it would be unwise, and probably unhelpful to him, to set a date for terminating the RMPS.

As you say, we must now give a high priority to setting revised EFLs for the NCB and the ESI for 1985/86, taking account of the position after the strike. Ian MacGregor has told me that the NCB's external cash requirement for the year may be rather under £1200m, but there is at present no detailed analysis underlying this figure. And I think you make rather light of the considerable uncertainties connected with power station restocking. It is still unclear even for the period up to October how fast the NCB can rebuild production and deliver the expected tonnages. This uncertainty affects the EFRs of both the NCB and the ESI.

SECRET



We aim to resolve the uncertainties quickly and I have asked Ian MacGregor for an analysis of 1985/86 as soon as possible. If we can announce revised EFLs before Second Reading of the Bill, well and good. But there is no point in producing a second set of guesstimates, which will probably then have to be superseded again, in order to volunteer figures to meet the Bill timetable. And we certainly cannot risk delaying the Bill while the EFL problems are sorted out.

As regards Parliamentary presentation, I would avoid presenting the Bill as part of a detailed strategy for the industry, not least because to do so would lead to pressure for information on eg the rate of closures. We will have to say frankly what is true: that it is too early yet to present a new detailed strategy for the industry, and we have to regard this Bill as part of an interim or holding operation while reconstruction is completed and a new strategy worked out.

I am copying this letter to the Prime Minister, the Lord President and the Lord Privy Seal.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by a large 'W' and a smaller 'll' at the end.

PETER WALKER

SECRET

MAT 1-7
Coal VE 17

APR 5 1985

11 12 1 7 4 11

SECRET



16

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

10 April 1985

Prime Minister:

John
Peter
I doubt whether the position will be clear enough by July. Agree my main & subsidiary points - not

The Chancellor broadly agrees to Mr Walker's figures, which you have already endorsed. I have checked that they included transfer payments, as you requested. Endorse Chancellors request for the outlines of a Corporate Plan to enable Ministerial discussion?

COAL INDUSTRY BILL

Thank you for your letter of 28 March about the figures for the forthcoming Coal Industry Bill.

It was helpful of you to set out the issues surrounding the deficit grant figures so fully. Ian MacGregor's forecast for 1985-86 and 1986-87 are somewhat higher than I would have expected in relation to the provision sought for the RMPS Scheme. I have no difficulty with funding a major reduction of manpower in these years, but I hope that the rate of pit closures (which helps reduce the deficit) can be kept to at least the rate we mentioned at MISC 101 last month.

12/4

On that basis, there appeared to be a good prospect that the NCB could meet Ian MacGregor's objective of getting back to break-even by 1987-88. There would be a major advantage in being able to say that the tranche of deficit grant provided in this Bill is the last that this Government intends to provide. That would give NCB a clear financial framework in which to operate and give the whole organisation a target to work towards for 1987-88. In broader terms, it would also show our supporters that the costs of the coal strike had been worthwhile; and that, with the Board's management, we intended to deliver financial viability for NCB in this Parliament. There would of course be risks if NCB do not succeed; propriety problems over continued lending to the Board from the NLF might force us to seek fresh legislative provision for grant. But I believe that the risks are worth taking to secure a major prize - and setting the NCB a clear public target would in itself be a help in bringing about the desired result.



X ✓ Similarly, it would be desirable to indicate that we do not expect to provide for further redundancies under RMPS terms beyond 1986-87, at the latest. Peter Rees has already mentioned his concern that we do not lock ourselves into this scheme indefinitely; and the improvements for the under-50s agreed in 1984 were intended to last for only two years anyway. It might also encourage miners to volunteer for early redundancy if they thought that these generous terms would not be available indefinitely.

It is difficult to form a detailed judgement on the figures proposed, and I recognise Ian MacGregor's problems in giving firm forecasts at this stage. But we really need to see the overall public expenditure position for the NCB before reaching a final view. Indeed it is hard to see how we could explain the figures in the Bill to the House without revised EFLs in place for NCB. I gather that consideration of the Bill in Legislation Committee has been delayed until 17 April. I should be grateful if we could make use of this additional time to arrange for Peter Rees to know what external financing requirements the Industries think they will need in 1985-86 before the committee meets; and if you could settle the figures with him in the usual way before Second Reading. It would be sensible to announce the electricity figure at the same time - the way should be clear following our decisions on power stations restocking and this year's price increases.

On that basis, I am content to agree provisionally with the figures you propose (£2,000 million for deficit grant, £1800 million for RMPS and £450 million for social grant). With the slight easing of the timetable, that should give an opportunity should you need it to consult with Ian MacGregor about how the figures might be presented publicly before we go firm on them at Legislation Committee.

X I well understand the burdens he currently faces, but I hope that it will be possible for him to provide us with at least the outlines of a Corporate Plan by July so that we can consider it alongside this year's Investment and Financing Review. Perhaps we could also look to settle the Board's cost reduction aim at that stage too.

I am sending a copy of this letter to the Prime Minister, the Lord President and the Lord Privy Seal.

NIGEL LAWSON

A large, stylized handwritten signature in black ink, appearing to read 'Nigel Lawson'.

Good

10 APR 1985



14

AS

Speed - look - will this include one for all costs from the need for transfer etc

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Prime Minister

The Policy Unit (flag attached) suggest acceptance of the figures in the Energy Secretary's letter (with £2 billion

28 March 1985

for the deficit grant) but urge an E(WI) meeting to prompt a more organised approach by the NCB to its planning. Do you agree i) Peter Walker's figures and ii) to the Policy Unit's proposal

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

R. M. L.

COAL INDUSTRY BILL

The new Coal Industry Bill, which it has been agreed should provide for the Board's financial requirements up to March 1987, needs to be introduced as soon as possible. This means we need to decide now on the amounts to be provided in the Bill for deficit grant, social grants and RMPS.

29/3

The Bill will make provision for deficit grant to cover the remainder of the Board's losses in 1984/5 and, separately, losses in the succeeding two years. I believe this is presentationally important in order to set behind us the losses arising from the strike and distinguish from them the much lower rate of underlying loss in the Board's activities.

Applying this principle we need to provide a further £1,200 million for 1984/5. The reasoning behind this is explained in the attached note and is already familiar to your officials. The figure includes a provision of some £300 million in respect of losses caused by the strike which will fall in 1985/6 but which, on present plans will be accounted for in the current financial year. There will of course be a corresponding benefit in the 1985/6 accounts.

For 1985/6 and 1986/7 the NCB's thinking is of course still developing. Ian MacGregor's latest estimate, which he would be the first to say is highly tentative, is for a loss of *£700 million in 1985/6 and £390 million in 1986/7. I frankly see little advantage in attempting to investigate these figures deeply at this stage, even if the time were available to us. I think we have to proceed on a round-sum basis.

If we added £1,090 million to the £1,200 million in respect of 1984/5, we would be looking at a round-sum figure of £2½ billion, which would then allow a small margin for error or possibly carry us into 1987/8.

* £700 million

SECRET



The only possible alternative is to go for the next practicable lower figure of £2 billion. That would have the advantage that we could tell our supporters we were only providing £800 million for future deficits. And there is of course an argument for giving a signal in this way to the Board that, having met the bill for the strike, we expect them to do everything possible to limit future deficits. If in fact the £800 million proved insufficient we would have to pay some of the 1986/7 financial year's deficit grant in arrear out of grant authorised by the next legislation in the 1986/7 Parliamentary Session; just as we are now paying 1984/5 in arrear out of the present Bill in the 1984/5 Session. But as you know, the price of payment in arrear is that we simply divert the Board into the National Loans Fund and add to interest payments which themselves have to be met out of deficit grant; so we are swelling both sides of the public accounts.

If you see advantage in the lower figure of £2 billion I would be ready in all circumstances to accept it.

We have not yet exhausted the amounts in present legislation for RMPS and pit closure grants but the Bill will need to make provision to move by Statutory Instrument beyond the existing limits up to new revised maxima. The very tentative figures we at present have from the Board suggest that these new maxima should be £1,800 million for RMPS and £450 million for pit closure grants (as compared to £1,200 million and £400 million respectively at present). There can be no precise analysis underlying these figures at this stage. I believe however that we should accept them, on the understanding that I will consult you in more detail about the underlying policy well before the time comes to use the power to increase the limits. If we underprovide, we shall run the risk of holding back the rate at which the Board can implement its closure strategy.

I would be glad to have your agreement to these figures (£2 billion - or £2½ billion if you prefer; £1,800 million and £450 million) so that drafting of the Bill can be completed urgently. I need to bring the Bill to Legislation Committee on 3 April and am indeed being pressed by the Lord Privy Seal to do so.

I am copying this letter to the Prime Minister, the Lord President and the Lord Privy Seal.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

PETER WALKER

SECRET

ANNEX

DEFICIT GRANT 1984/5

	£ million
NCB's latest estimate of loss for 1984/5	1,875
LESS deficit grant already paid	1,108
Amount remaining to be funded	767
PLUS additional provision in respect of losses resulting from the strike falling in 1985/6 (1)	317
Total	1,084
Margin for contingency (2)	116
Total in Bill	1,200

- (1) the Board and their auditors are agreed that this provision should be made in 1984/5. The accounts will not however be finalised until late June, and to guard against a change in accounting policy at a late stage, which might transfer this amount back into 1985/6, it is intended to provide in the Bill that any unspent provision in respect of 1984/5 should be transferable to later years by Order.
- (2) apart from the desirability of rounding the figures, this margin is necessary to cope with any last minute accounting changes eg to provide for writing-off assets on collieries announced for closure up to the time when the accounts are finalised.