

Prime Minister 4

This reports a correspondence
about the terms for Coal Industry Bill 1986.

PRIME MINISTER

DLW
16/5

16 May 1986

1986 COAL INDUSTRY BILL

The collapse of oil prices and the uncertain prospects for the coal industry have forced the Department of Energy and the Treasury onto common ground - an extension of the unsatisfactory deficit funding arrangements for British Coal.

By now, the Treasury (eagerly) and Energy (cautiously) expected to be laying the foundations of a new corporate structure, which would segregate British Coal's conflicting roles:

- the commercial business;
- the Licensing Authority for coal;
- the instrument for social security.

Denied this objective, the Treasury want to nudge the extended funding arrangements a little closer to being a surrogate for normal commercial disciplines. Energy will accept some of the Treasury's proposals, the principal remaining differences being:

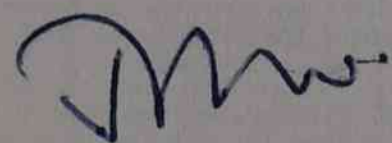
1. Duration of the extended arrangements. Treasury want two years. Energy want the flexibility to extend beyond two years, subject to an Affirmative Resolution. (Treasury

are right to signal that the extension is short-term and foreshadows a radical restructuring. Energy's counter-proposal should achieve this whilst retaining useful flexibility.)

2. **Transfer to British Coal of responsibility for the Redundant Mineworkers' Payments Scheme and Concessionary Coal Schemes.** Treasury want the burden of all past and future commitments to be transferred to British Coal, even if the Government has to underwrite the increased deficit. Energy want British Coal's obligations to begin in respect of decisions taken after the start of the next financial year. (The psychology of the Treasury's proposal is bad. We are trying to motivate an organisation to get back into profit. Just when that is in sight (deficit of £100-200 million foreseen in 1987/88, allowing for the new deal with CEGB), we clobber British Coal with an additional £200 million for past commitments arising from Government-inspired measures.)

Conclusion

There is no need to intervene at this stage. The differences between Peter Walker and John MacGregor are not fundamental, and may well be resolved without reference to colleagues.



JOHN WYBREW



Treasury Chambers, Parliament Street, SW1P 3AG

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

*Any PV comments
to be made
by 15 May 1986*

15 May 1986

Dear Peter,

COAL INDUSTRY BILL

Thank you for your letter of 18 April to Nigel Lawson.

It is disappointing that we cannot consider the future financial framework for the coal industry against the projections in the NCB's long overdue corporate plan. That would obviously be the most sensible course. However I accept that we cannot delay decisions on the content of the Bill indefinitely.

I can therefore go along with the broad and flexible grant structure you propose to replace social grant and RMPS, on four conditions.

The first is that the Bill should give order-making powers for only two years. This is an explicitly temporary regime, really just a simplified version of the present one: we should make no bones about our intention to adopt a more lasting, and quite possibly different, financial structure after that, in the context of perhaps less uncertain views about the energy market.

Second, the Bill should transfer responsibility for continuing payments under RMPS and concessionary coal schemes to the NCB. This would move the Board a little closer to a realistic commercial regime, though I realise that initially the financial burden may be too great to bear without some government support.

Third, the coverage of the grant available under the Bill should be variable year by year.

Fourth, the new omnibus grant should be cash limited. This would impose a useful financial discipline on the

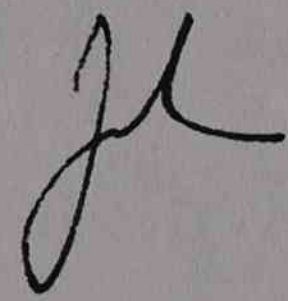
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Board and would make a welcome contribution to the campaign to extend the coverage of cash limits.

You also rule out a capital reconstruction, preferring instead to take reserve powers to continue deficit grant. This strikes me as a retrograde step. If the Board can hold to their objective of breaking even next year, a capital reconstruction might be an attractive option. The NCB's negative reserves create an uncomfortable propriety problem for NLF lending, which would be better avoided. For that reason I believe it would be right to go for a capital reconstruction as soon as a defensible recovery strategy will justify one. Of course we cannot decide on that approach without the corporate plan.

Copies of this letter go to the Prime Minister, other E(A) colleagues and to Sir Robert Armstrong.

Yours ever,



JOHN MacGREGOR



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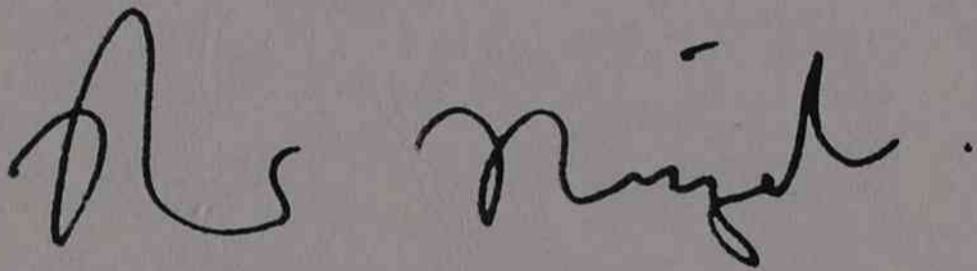
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NBN at this stage

01 211 6402

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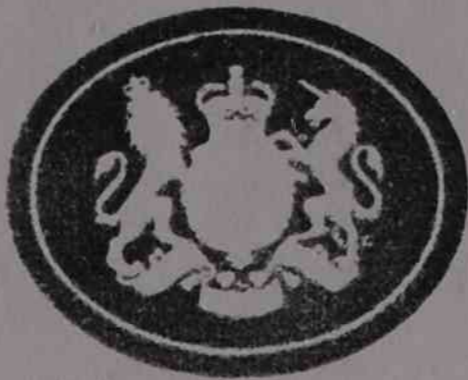
18 April 1986

**1986 COAL INDUSTRY BILL**

You will recall that it is agreed that a Coal Industry Bill should be introduced in November at the outset of the next session of Parliament. The primary purpose of this will be financial, to provide for a continuing power to make payments in the areas of redundancy and social costs, and to avoid a position in which the Board would be unable to continue trading after the present power to pay deficit grant expires at the end of the NCB's 1986/7 financial year. The purpose of this letter is to seek your agreement in principle on the provisions I propose to include.

I am satisfied that there is no prospect of the Board being able to take over the substantial continuing liabilities in relation to redundancies prior to March 1987. However I accept that we will not be in a position to make final decisions on the extent of necessary support to the Board in relation to costs and events after that date until we are clearer on their business prospects. Given current uncertainties over the future price of oil and negotiations with the electricity supply industry, this may not be for some time. Parliamentary Counsel has however advised that he needs drafting instructions in June. Against this background I envisage the best way to proceed with drafting the Bill is in terms which will provide a flexible framework of powers designed so far as possible to enable central decisions on the amount of support to be made nearer the time.

I outline my proposals below.



CONTINUED PAYMENT OF EXISTING SOCIAL GRANTS AND RMPS BENEFITS IN RELATION TO REDUNDANCIES PRIOR TO MARCH 1987

Redundant Mineworkers Payments Scheme

The ending of the Redundant Mineworkers Payments Scheme for new redundants after 28 March 1987 was announced on 24 March 1986. There will remain, however, a substantial liability for continuing weekly payments to those who will have left prior to that date. These payments are likely to exceed £200m per year in the early years, with a total liability approaching £1 billion by the time of the final payment in 2002. In my view it is quite unrealistic to suppose that we could transfer these liabilities to the NCB; the Bill will therefore need to amend the 1977 Act to provide the power for continued payments.

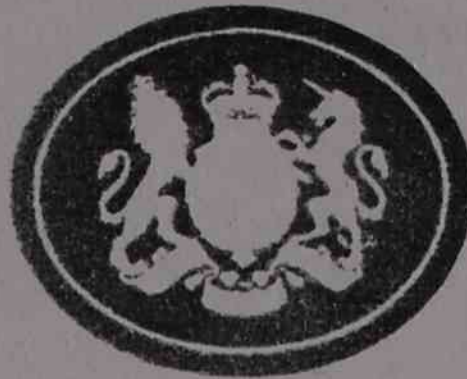
Social Grants

There are also substantial liabilities in relation to redundancies prior to March 1987 which fall to the NCB but which we currently fund to varying degrees through social grant. These include the costs of premature and enhanced pensions to redundants, the provision of concessionary coal to redundants and other continuing expenditure on earlier transfers related to pit closures. The vast bulk of these liabilities (in excess of £1 billion over the 10 years 1987/8-1996/7) represent staged funding of grant which the Board has already accrued to its accounts in earlier years and which Government are committed to meeting. The Bill will need to amend the 1977 Act to permit payments to the NCB arising from these earlier costs and the continued provision of concessionary coal.

SOCIAL GRANTS IN RELATION TO COSTS AND EVENTS AFTER 1987

Power to make Schemes

Even taking a reasonably optimistic view of the Board's financial prospects, it appears most unlikely that they will be able to achieve and maintain viability without some degree of social grant support in relation to costs accruing after March 1987. I propose, therefore, that the Bill should contain provisions giving me the power to introduce, within certain broadly defined areas, schemes enabling me to reimburse relevant costs of the NCB. The Schemes would be introduced by affirmative Order, would each be for one financial year only, and would specify more closely the areas of expenditure to which I may contribute and the maximum amount or percentage of the Board's relevant costs which may be reimbursed.



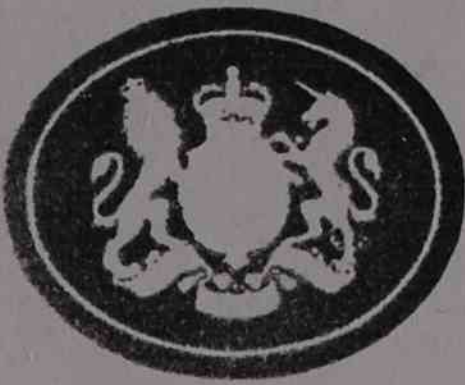
I envisage the power to make Schemes covering the making of grant in such of the areas specified in the Bill as will assist with the restructuring of the coal industry and which contribute towards costs incurred in a financial year in which the Board is re-deploying or reducing its employees with a view to bringing its output or its costs into line with the market. This reference to restructuring should mesh well with the expected forthcoming ECSC decision on pensionable state aids to the coal industry.

The prime purpose of the Bill will be to enable me if necessary to introduce schemes to enable Government to contribute to costs arising from redundancies and closures. I judge that, in addition to the financial arguments, the taking of such a power is essential in order to help us defend the ending of RMPS. The power will also need to cover certain other costs to the Board which are increased by closures and manpower rundown and to which we currently contribute through pit closure grants, and to hold open the possibility of continuing Government contribution to the cost of the Board's enterprise initiative (including retraining of redundant mineworkers) after the power to pay deficit grant ends. I therefore propose that the areas specified in the Bill should be:

- redundancy and early retirement costs (including concessionary coal to redundants)
- relocation and disturbance costs
- the cost of maintaining existing concessionary coal arrangements for retired miners and miners widows
- the cost of maintaining existing social welfare provisions
- NCB costs towards creating new job opportunities in coal mining areas and retraining of redundant mineworkers.

Although I think it essential to include these last two areas within the Bill, I am still considering the case for including any such costs in the first Scheme. More generally, the precise areas to be covered in the first Scheme and the limits on support will remain to be determined nearer the time.

I propose that this power to make Schemes be limited to 5 years, and in aggregate expenditure, but with the latter capable of being increased by Order. The appropriate financial limits will also need to be determined nearer the time.



Deficit Grant to the NCB

My original proposals for the Bill included a financial reconstruction for the Board, to ensure that they will be in a position to continue trading once the power to pay deficit grant expires. However neither I nor the Chairman now feel that the time is yet right for this.

Whilst the Board's financial prospects remain so uncertain, we can no longer be confident that the Board will be in a position to continue trading if the power to pay deficit grant ends in March 1987. A decision to maintain the power to pay deficit grant may ultimately be unavoidable. For the moment I see no alternative therefore to asking parliamentary Counsel to draft the fairly simple provisions necessary to maintain this power. We can decide nearer the time of introduction whether the provision is to be included in the Bill, and if so for how long the powers should be taken. I will of course consult you further on those points in due course.

Copies of this letter go to those on the attached list.

A large, stylized handwritten signature in black ink, appearing to be 'P. Walker', with a small 'ell' written to the right of the main signature.

PETER WALKER

Prime Minister

Other Members of E(A)

Lord President

Chief Whip

Sir Robert Armstrong

Coal or Parbonament

