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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

7 November 1986

Dear Peter,

NBN

COAL INDUSTRY BILL

Thank you for your letter of 30 October.

I am grateful for your agreeing to an upper limit of deficit grant of £200 million. British Coal's access to the NLF will depend on their meeting the statutory requirements of the National Loans Act.

I acknowledge your reasons for proposing an upper limit of £750 million for social grant; and I welcome your assurance that you intend the rate of grant to decline. I am still of the opinion that a somewhat lower figure would be a useful public indication of this intention, and could be presented as such. However, I recognise the need to avoid further delay, and so long as you will be presenting the figure publicly in the terms you suggest, while making your underlying intention clear to the Board, I will accept the figure. But I hope that we can move quickly towards the substantive decisions on the projected rate of grant, which will in turn require more firmly based projections of the Board's financial position.

I am copying this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young and John Wakeham, and to Sir Robert Armstrong.

Yours,
JH

JOHN MacGREGOR

NAT. IND: Coal: PE 20



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

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

30 October 1986

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COAL INDUSTRY BILL

Thank you for your letter of 28 October.

Deficit Grant

I am a little uneasy about drawing the upper limit too tightly. After all, there will be ample control over the amount of grant that can be paid, both through the need to secure Parliamentary approval for any increase in the initial limit and through Supply Estimates. It would be foolish to force ourselves into further primary legislation, perhaps at an inconvenient time, simply because of a temporary downturn in the fortunes of British Coal.

However, in the interests of reaching agreement, I am willing to accept your proposal of an upper limit on deficit grant of £200m, provided that it is understood between us that if it were not possible to cover the full amount of a deficit and there were a consequential increase in British Coal's negative reserves, that would not of itself prevent the continuation of funded lending to the Board.

Social grant

Your proposal on the upper limit here presents me with greater difficulty. The figure of £750m which I proposed is simply a proportional extension for 5 years of £300m for two and can readily be presented as such. To use a figure of £600m would imply that we had forecasts of social costs and grants for the whole 5-year period, which we have not, and raise questions which we could not easily answer about British Coal's future redundancy plans. It would be likely to make debates on the Bill significantly more difficult to handle.

I do not think that British Coal would draw the inferences you fear from a figure of £750m. In the first place, it is likely that the ending of RMPS from March 1987 will lead to a lower than normal rundown of manpower in 1987-88: indeed, the public expenditure

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figures which we have recently agreed assume as much. Pro-rating support is therefore compatible with a lower rate of grant in later years, offset by higher numbers. Secondly, the Board will give much more weight to the rates of grant which we incorporate in our financial plans for the next 3 years. I certainly intend the rates to decline over that period. With that assurance, I hope you will feel able to agree to an upper limit of £750m.

Pensions

I am grateful for your agreement to my proposals.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young and John Wakeham, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "P. Walker", written in a cursive style.

PETER WALKER

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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

28th October 1986*Dear Peter,***COAL BILL**

Thank you for your three letters of 30 September and 9 and 20 October. We need to take decisions on three main areas.

Deficit grant

I accept that it is logical to extend the reserve power for deficit grant to cover 1988-89 as well as 1987-88 now that the break even target has receded by a year. I am also content with your proposed primary limit of £100 million since it is close to BCC's forecast deficit for 1987-88.

But your proposed overall limit of £300 million seems too high. I suggest £200 million, which still leaves a significant margin of comfort for BCC, given their commercial operating flexibility.

Social grant

I can accept the structure you propose. I am particularly anxious that we establish a sound framework for the annual negotiations about the coverage and rate of social grant.

However, I again have difficulty with the figures you propose. We have agreed that an important element of the new financial regime will be a framework establishing a declining rate of grant over the medium term. It is important that the Bill similarly signals our determination to lower progressively grant support for the coal industry. I therefore believe that we should set the 5 year limit at £600 million so as not to imply the same level of grant in the later years as in the first two.

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Pensions

I recognise that this is a sensitive area. I will therefore not press you to make the legislation more specific than you feel you can defend. If lower contributions meant higher payments to cover the net deficiency in the Mineworkers' Pension Scheme, there would be a case for a correspondingly lower social grant. But that would be something to be decided if difficulties arose in practice.

I am copying this letter to the Prime Minister, Willie Whitelaw, John Biffen, Norman Tebbit, David Young, John Wakeham and to Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR

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