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SECRETARY OF STATE FOR ENERGY

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Prime Minister ²

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23/1

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

22 January 1987

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FINANCIAL SUPPORT TO THE COAL INDUSTRY

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I have discussed with Bob Haslam his plans for British Coal and his latest view of short to medium term prospects. Over the past twelve months the industry has made tremendous progress, notably in relation to productivity. Nevertheless he is concerned that greater than anticipated use by the CEGB of the French interconnector together with weakness in other markets, particularly the industrial market, is leading to a shortfall in revenues which without further action will jeopardise his ability to achieve the objectives we are setting him. He therefore proposes further measures to reduce costs through manpower reduction, increasing to 31,000 the number of men expected to leave the industry through voluntary redundancy under the Redundant Mineworkers' Payments Scheme during the current year. This is in addition to aiming at 4,500 as the number leaving under British Coal's own scheme next year, in line with the industry's bid in the 1986 IFR.

The immediate effect of these measures will inevitably be to increase RMPS and social costs. Gross RMPS payments this year are estimated to increase by £40 million to £580 million. Gross social payments by British Coal are similarly estimated to rise by some £40 millions, although as a result of staged funding the effect on cash social grants this year would be modest.

These changes will also affect the need for RMPS expenditure and non-deficit grant to British Coal in 1987/88, in part because some 4,000 of the men who leave under RMPS at the end of this year could not be paid until next. Attached to this letter is an Annex setting out the figures, including all non-deficit cash grant to British Coal after taking account of the proposed 75% rate of restructuring grant towards future redundancy costs accepted in your letter of 16 January. There will additionally be some increase in continuing expenditure under RMPS and stage payments of pensions in later years.

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I am clear that we should support Bob Haslam with these measures, which are necessary to ensure that our proposals for the industry remain realistic. I therefore propose:

- i) A Spring supplementary estimate for RMPS increasing gross provision to £580 million.
- ii) An increase in the 1987/88 supply estimates provision for RMPS of £60 million to £264 million, and for non-deficit grant to British Coal of £77 million to £399 million.
- iii) No increase at present in the recently revised EFL of £825 million for the current year, but detailed re-examination with British Coal in mid-February to examine whether this is achievable, when the position should be clearer. We should also by March be in a better position to consider the overall realism of the £727 million EFL presently set for 1987/88.

It would be desirable for David Hunt to write to the Chairman of the Select Committee on Energy explaining the basis of the proposed Spring Supplementary as soon as possible.

I am sending copies of this letter to the Prime Minister and Sir Robert Armstrong.

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

PETER WALKER

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ANNEX

Non-deficit financial support to the Coal Industry : 1987/8 (£m)

Cash basis

	<u>Original bid</u>	<u>Revise</u>
Redundant Mineworkers Payments Scheme (A1)		
- Weekly Payments	201	206
- Lump Sum payments	-	55
- Administration	3	3
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Total	204	264
Pit Closure Grant (B2)	28	37
Restructuring Grant (B3)	90	129
Other Social Grants (B4)		
- Premature pensions	133	159
- concessionary coal	24	27
- Mineworker Pension Scheme deficiency grant	47	47
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Total	322	399

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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

NRAM

30th January 1987

Dear Peter,

at flap

FINANCIAL SUPPORT FOR THE COAL INDUSTRY

Thank you for your letter of 22 January explaining Sir Robert Haslam's proposals for further redundancies this year; and their consequences for public expenditure.

Of course I appreciate the business advantage to be gained by manpower reductions to obtain necessary cost benefits. The Government has not shirked responsibility for this expense in the past in the commercial interests of the coal industry. I agree that we should do the same now.

I understand that our officials have now agreed that it should be possible to arrange for payment of £35 million of the extra costs this year, leaving £25 million to slip into 1987-88. I think that is a more appropriate phasing of the costs.

I also agree that there would be sense in explaining all this to the Energy Select Committee now in advance of the Spring Supplementary Estimate. I should be grateful if your officials would clear the text with mine.

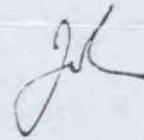
You will understand my concern about the possible further risks you mention to the EFLs for both this year and next. I very much hope that any further increase in the 1986-87 cash limit can be offset by a corresponding decrease in next year's.

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I appreciate that the beneficial impact of lower manpower on profit cannot be adequately assessed without considering British Coal's prospects in the round. But in agreeing to the costs flowing from the higher redundancy numbers I am of course expecting that there will be some profit improvement. I am prepared to wait, as you suggest, for next month before assessing the full picture but we must then move very quickly to avoid the danger of undermining the credibility of EFLs by seeming to adjust the targets to match likely outturn.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever,



JOHN MacGREGOR



Nat Ind. Coal PT 4