

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 London
 SW1P 4QJ

Prime Minister 2

To write

- (i) the redundancy terms are agreed;
 (ii) there is to be a review of British Coal's business strategy. DER

30 September 1987 1/10.

REVISED REDUNDANCY TERMS FOR MINEWORKERS

Thank you for your letter of 28 September, which we discussed briefly at our bilaterals on 16 and 29 September.

It is disappointing that British Coal so misjudged the scale of redundancy benefits required to secure the objective for contracting manpower this year. Nevertheless I agree that it is imperative that the planned rationalisation does take place. I am therefore prepared to raise the shadow cash limit on restructuring grant to accommodate the cost of paying the supplements. I hope that British Coal will be able to absorb their share of the additional cost within the £90m loss target for the year. No doubt you will let me have your proposals for revising the EFL shortly.

Turning to the scheme itself, I should be grateful if you could look again at two important details. It seems surprising that British Coal recommend retrospection since it clearly cannot be justified by way of improving incentives. I wonder whether the reaction to denying retrospection in a discretionary supplement would really be very adverse. May I ask you to probe Sir Robert Haslam on this point?

CONFIDENTIAL

Second, I share your worries about the future of the scheme. It is already pretty clear that its design is not well suited to the likely redundancy objectives, and there must be a very strong danger that a similar adjustment will be required again next year if the scheme overall is to be sufficiently attractive to the target groups. The men will not respond if they come to expect an annual adjustment. I should therefore be grateful if you could ask Sir Robert Haslam to rethink the requirements of the scheme in good time for next year. As you mentioned, any successor scheme may need to take account of the possibility of compulsory redundancies, perhaps selective, to ease the closure programme.

I suggest that this second aspect could readily be explored in the context of the strategic review you suggest. I agree that our plans to privatise the electricity industry are bound to jolt British Coal's market very considerably. I therefore support your idea of a strategic review of British Coal's policy approach. It would be very helpful if my officials could take part in it since its ramifications will clearly have important implications for public expenditure as well as electricity privatisation.

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

John Major

JOHN MAJOR



010
CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CCB
NBM.

28 September 1987

Dear John,

REVISED REDUNDANCY TERMS FOR MINeworkERS

As you know, British Coal's budget for the current year and their IFR proposals assume 6,300 redundancies among industrial staff in 1987/88. Because it was always inevitable that redundancies in the early months of this financial year would be depressed by the heavy outflow in the final weeks of 1986/87, it is hard to assess the trend. But redundancies to date total little more than 1,000; and British Coal's considered judgement is that there is no prospect of achieving the target of 6,300 without some further inducement.

Compared with the RMPS, the Corporation's redundancy scheme offers relatively little to younger men; there are few mineworkers over 50; and the average age of the workforce is under 35. British Coal therefore propose to offer an additional flat rate payment of £5,000 to men with at least two years' service who accept redundancy. This addition would be paid only for 1987/88 and would be restricted to redundancies resulting from the closure of major units (calling for at least 50 redundancies). British Coal propose to pay the supplement to those who have already gone during this financial year on the current terms. British Coal believe that excluding them would create considerable ill-feeling, and disproportionate opportunities for exploitation by the unions and mining MPs. Depending on uptake, the total cost is expected to be of the order of £30-35 million. Further details are given in the Annex to this letter.

In considering this proposal it is relevant that although British Coal's markets are holding up reasonably well in volume terms, prices are still under downward pressure. The future privatisation

CONFIDENTIAL

CONFIDENTIAL



of the electricity industry will throw its shadow forward and add to those pressures. It will clearly be necessary to review with the BCC their business strategy in the light of these developments: any such review is almost certain to point to a need for even more demanding cost reductions and manpower savings. Even as things stand, Bob Haslam faces a most difficult task in securing breakeven in 1988/89; it will be impossible if he does not get the redundancies budgeted for 1987/88.

I have given careful thought to the risk that we could be setting a precedent for the future. However, whilst there is a risk, our first priority must be to maintain the momentum of the redundancy programme which Bob Haslam has established. He is determined to close unprofitable pits and achieve break even on target. He is quite clear that he must continue to reduce numbers to achieve these objectives; that he needs to increase the rate of redundancies this year; and that there revised terms are a minimum needed to achieve this. I have no doubt that we must support him.

A further consideration is that resumption of the manpower rundown will help discredit Mr Scargill: the men will be seen to be voting with their feet. This has been a significant factor during the period since the strike. I intend to discuss with Bob Haslam how best to present the new terms in the context of the current industrial action if it should continue.

Looking further ahead, the BCC accept that they should not assume indefinite continuation of the policy of no compulsory redundancies. However, any departure from that policy will need careful preparation; and I do not think that the time is yet ripe. The right course is to ensure that it is considered in the review of British Coal's strategy.

If we agree to British Coal's proposals, the sooner they are announced the more effective they will be. As I warned you at our bilateral meeting on 16 September, I am afraid that I must press you for an early reply.

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

A handwritten signature in dark ink, appearing to read "Cecil Parkinson". The signature is written in a cursive, somewhat stylized hand.

CECIL PARKINSON

CONFIDENTIAL

CONFIDENTIAL

ANNEX

DETAILED PROPOSALS

Unlike the RMPS, British Coal's redundancy scheme for industrial workers pays only lump sums. The rates are £700 for every complete year of aggregate service from the age of 30, £450 for each year of such service between ages 21 and 29 and £250 between ages 16 and 20. On average, men aged between 30 and 34 get lump sums of £6,400; men aged between 35 and 39 get £9,650. The average for the scheme as a whole is £12,800. Redundancy payments under the State scheme are paid in addition.

The BCC propose to enhance these terms by a flat-rate supplement of £5,000. This would be payable only for 1987/88, and would be restricted to men with at least 2 years service and to redundancies resulting from closures of major units (calling for 50 redundancies or more). The BCC propose that it should be paid retrospectively to those who have left under the existing scheme earlier in this financial year, and who otherwise meet the conditions for the supplement.

Depending on uptake, the scheme would require supplementary provision of the order of £20-25m to the Restructuring Grant Vote in 1987/88. In theory, an alternative would be to let the additional costs increase British Coal's accounting deficit for 1987/88, and hence the deficit grant payable under Section 2 of the Coal Industry Act 1987. In the view of Department of Energy officials, this would be hard to reconcile with the philosophy of the Act: the appropriate method of contributing towards agreed restructuring costs is by grant under Section 3 of the Act. It could also prove imprudent: if the BCC found it necessary to raise higher than expected provisions in the 1987/88 accounts (for example, in respect of claims for noise-induced hearing loss), allowing the full cost of additional restructuring payments to fall on the Profit and Loss Account could bring total deficit grant dangerously near to the statutory limit of £200m.

The BCC hope to absorb the remaining costs, of the order of £5-10m. However, they are conducting a thorough review of their cash requirements for the rest of the current financial year and will be putting forward detailed proposals early next month.