

Prime Minister²RCCG
25/5

PRIME MINISTER

FINANCING BRITISH COAL

You should be aware that I shall be making an announcement tomorrow, 26 May, through the attached Question and Answer, of a change in the method of financing British Coal. In brief, future Government loans to British Coal will be made as loans from Votes, not loans from the National Loans Fund. Although it is technical, the change could provoke critical comment and speculation about BC's finances.

The reason for the change is that Sir Peter Middleton, as Accounting Officer for the NLF, considers that it would not be proper for him to authorise further lending from the Fund, in the light of BC's deficit in 1987/88 (expected to be over £500 million, though this figure is not yet public knowledge) and uncertain business prospects. I have discussed this fully with my Treasury colleagues and we are all of the opinion that there are no grounds for seeking to persuade him to change this view.

Although it may be difficult to present this change, because of the need to explain to Parliament why BC should be creditworthy for one source of borrowing from the Government but not another, there are some positive points to make. We will point out that the change does give Parliament greater control of the Corporation's borrowing, and a greater opportunity to discuss its progress. It also gives us the ability to adapt the terms of its borrowing to its commercial circumstances.

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We will be making these points very strongly and my officials are preparing briefing for you to use should the matter be raised at Question Time.

I am sending a copy of this minute to the Chancellor of the Exchequer.

C. P.

2nd May 1988

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Secretary of State for Energy

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Q. To ask the Secretary of State for Energy what financial support the Government expects to give British Coal in 1988-89.

A. British Coal's External Financing Limit for 1988-89 has been set at £670m. As announced to the House on 28 March (or Col 295), planned financing was made up as follows:

	£m
Restructuring Grant	116.0
Other non-deficit grants	273.5
Net Borrowing	280.5

	670.0

The requirement for restructuring grant in 1988-89 is being reviewed following the substantially increased number of redundancies in the closing days of 1987-88, which has resulted in higher than expected expenditure on redundancy lump sums early in 1988-89. A summer Supplementary Estimate will be submitted to seek approval for the additional grant. I am also considering the implications for the Corporation's External Finance Limit. I will make an announcement to the House in due course.

The Government has agreed that, subject to Parliament's approving any necessary provisions, adequate funds will continue to be made available to enable the Corporation to meet its financial obligations as they fall due during the Corporation's financial year ending 25 March 1989. The Government have also renewed their guarantee in respect of limited overdraft facilities at UK clearing banks for 1988-89.

The House was told on 8 March that the loss for 1987-88 (after net restructuring charges) was likely to be higher than originally expected. Following the extra redundancies late in the year referred to above, the loss will be still greater.

As the House was told on 2 March (Official Report Column 1075) British Coal has for some months been precluded from access to longer-term funds from the National Loans Fund (NLF). The Corporation's current financial position and uncertain business prospects make it inappropriate for the NLF to continue to make new loans of any duration to it. It is therefore proposed, subject to approval of the necessary Supply Estimate, to refinance from loans on Vote under section 2 of the Coal Industry Act 1980, the whole of the short-term and overnight NLF debt expected to be outstanding at the time of approval of the Estimate, together with longer-term debt maturing in, and net new borrowing requirement for, the remainder of 1988-89. A Supplementary Estimate for a sum expected to be of the order of £1.8 billion will accordingly be submitted in due course. Of this, only the projected £280.5 million mentioned above represents net new borrowing in 1988-89; the remainder is to refinance existing NFL debt. The £280.5 million is already within the current EFL, and therefore the new arrangements do not represent an increase in public expenditure.



The Coal Industry Act 1980 provides that the Secretary of State, with the approval of the Treasury, may issue directions as to the rates of interest payable on loans on Vote; and that the interest may be deferred. It is intended that the rate of interest, at least initially, shall be at the same rate, and paid at the same time, as would be due on equivalent NLF loans. This will be kept under review in the light of British Coal's developing financial position. I would inform the House of any decision to soften the terms of future loans or defer the payment of interest.

The Corporation remains committed to the objective of achieving breakeven for 1988-89 after full interest charges and net restructuring costs; achieving an increasing surplus on revenue account in following years; and contributing increasingly to self-financing. These represent challenging targets, but are attainable provided the industry continues its drive towards greater flexibility and competitiveness and avoids damaging industrial action.

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From the Private Secretary

26 May 1988

FINANCING BRITISH COAL

The Prime Minister was grateful for your Secretary of State's minute of 25 May, concerning the announcement of a change in the method of financing British Coal, which she has noted.

I am copying this letter to Alex Allan (HM Treasury).

PAUL GRAY

Stephen Haddrill, Esq.
Department of Energy

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088