010

CONFIDENTIAL

Prime Minister

In line with agreed policy (meeting of 2 November which you attended confirmed restructuring grant should be retained.) Treasury are also content. Agree new Bill for 1991-92 Parliamentary session?

RHP 14/12

COAL INDUSTRY BILL

There is a strong probability that the statutory limit on restructuring grant, which is paid to British Coal to assist principally with the costs of redundancy payments, will be reached during 1992. Further provision under a new Coal Industry Bill will be needed during the 1991-92 Parliamentary Session in order for restructuring grant payments to continue.

The need to continue to provide support for the further restructuring of the industry was one of the key considerations to emerge from our recent review of British Coal's future strategy. For the moment we are assuming that restructuring grant would not be increased beyond the present 90% of restructuring costs, leaving British Coal with some incentive to seek the most economical means of managing future manpower reductions. However, this is a question that we should return to nearer the time of the next anticipated closure round.

I enclose a Memorandum which explains in more detail the need for the Bill, which would probably comprise only one main clause. I hope that the Memorandum can be cleared in correspondence.

I would be grateful to know if you and others to whom I am copying this minute and the Memorandum are content. Copies go to other Members of E(A), the Lord Chancellor, Sir Robin Butler and First Parliamentary Counsel.

Secretary of State for Energy

13 December 1990

CONFIDENTIAL

CONFIDENTIAL

COAL INDUSTRY BILL

Memorandum by the Secretary of State for Energy

1 I seek the agreement of colleagues to the policy content of a Coal Industry Bill for the 1991-92 Session. The purpose of the Bill is to increase the statutory limit on the aggregate amount of restructuring grant payable to British Coal in respect of redundancy and redeployment costs and to extend the period of grant availability.

The Proposals

2 Since the end of the 1984-85 coal strike British Coal have been closing high cost pits, maximising output from lower cost opencast and working their continuing underground capacity more intensively. Overall output has been cut back in line with market requirements. Despite significant reductions in overall mining costs (down 25% in real terms over the last four years) and a major financial reconstruction made possible by the Coal Industry Act 1990, the finances of the industry remain precarious, although a small bottom-line profit after grants will be achieved this year. Manpower in the coal industry will have to be further reduced over the next few years as the market requirement declines further and productivity (up over 85% since the strike) is raised to yet higher levels in pursuit of competitiveness. The key factor determining the market requirement for coal in the mid-1990s will be the outcome of the negotiations, which are unlikely to start in earnest until 1992, between British Coal and the electricity generators over new contracts to run from April 1993. In the 1990 Investment and Financing Review (IFR) it is assumed that colliery manpower (about 170,000 at the time of the strike) will be reduced from 60,000 at present to about 35,000 by March 1994. This assumption

is consistent with the main case which emerged from British Coal's recent strategy review, foreseeing a reduction in deep mine capacity from 72 million tonnes a year at present to 50 million tonnes at the most by March 1994. The strategy review also considered a lower case where deep mine capacity is reduced to 35 million tonnes and colliery manpower to 20,000 by March 1994. The review made clear that the Corporation must press ahead with reducing capacity and improving performance if it is to achieve sustained profitable operation. Continued Government support for future restructuring is a critical element in achieving this strategy.

3 Restructuring grant is provided to assist British Coal with redundancy, redeployment, retraining and employment creation costs. Redundancy costs predominate. Restructuring grant is paid under Section 3 of the Coal Industry Act 1987 as amended by Section 2 of the Coal Industry Act 1990. The limit on the aggregate amount of grant is currently £1,250 million, increasable by order to £1,500 million, and grant can be paid in respect of costs accrued up to March 1993. Payment of grant is subject to annual Coal Industry (Restructuring Grants) Orders which specify eligible types of expenditure and the proportion of expenditure that will be met by grant in the year concerned. Currently that proportion is 90%. Any increase in that percentage would reduce the remaining incentive for British Coal to hold down redundancy costs and no change is envisaged at present. In order to cover the grant requirement in 1991-92 however the Order to be made in early 1991 will have to increase the limit on aggregate grant to £1,500 million, the maximum currently permitted.

4 By the end of March 1992 the aggregate amount of restructuring grant paid to British Coal is expected, in line with the 1990 IFR assumptions, to have reached around £1,400 million and to be rapidly approaching the maximum limit of £1,500 million. The exact date at which the grant limit will be reached

depends on a number of factors, including the precise number of redundancies that occur and the level of costs per man, but the requirement for grant is currently forecast to continue at £200-500 million per year through 1992 to 1994 and there is a strong probability that the statutory limit on restructuring grant will be reached during 1992.

5 The Coal Industry Bill would be very short, probably having only one main clause. A final decision on the precise levels of the new grant limits in the Bill would need to be taken on the basis of the latest information available when the Bill is introduced but on current information the proposal is for the limit on the aggregate amount of restructuring grant payable to British Coal to be raised to £2,000 million, increasable by order to £2,500 million. This level of provision would cover the grant requirements underlying the 1990 IFR and would also provide for additional reductions in manpower if deep mine capacity was cut back further to around 35 million tonnes, as was recognised as a definite possibility in the lower case in British Coal's strategy review.

6 Under the present legislation restructuring grant can be paid in respect of costs recovered up to March 1993. The Bill would extend this period by 3 years to March 1996, by which time it is likely that the privatisation of the coal industry would have been completed. This would not necessarily be the end of the Government's obligation as elements of restructuring grant fall due on a stage-funded basis over a 10-year period.

Controversy and Timing

7 The Opposition are unlikely to oppose the Bill but they can be expected to question the numbers of additional redundancies implied by the scale of increase in grant provision. The Bill would be taken as an opportunity to raise related controversial

issues and it is likely to be represented as a pre-privatisation measure.

Financial and Manpower Implications

8 There is Public Expenditure Survey provision for restructuring grant to continue through the PES planning period. The settlement on British Coal's 1990 IFR provides for aggregate grant payments of £300 million in 1991-92 and, provisionally, £216 million in 1992-93 and £418 million in 1993-94. The requirement for an increase in the statutory limit on restructuring grant payments, as set out in paragraphs 5 and 6 above, is consistent with the PES provision. No changes to Departmental manpower are expected.

Community Implications

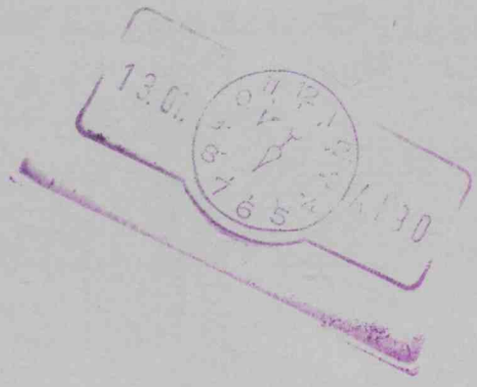
9 The Bill is not required to fulfil a European Communities commitment. Restructuring grant payments are notified to the Commission, as will be the Bill's provisions, but the Commission's specific approval is not required. Commission Decision 2064/86/ECSC, under which aids to EC coal industries are authorised, expires in December 1993. We are assuming that a new Decision, providing inter alia for continuing authorisation of restructuring assistance, will take its place.

Recommendation

10 I invite colleagues to endorse a Coal Industry Bill to introduce the changes described in paragraphs 6 and 7 above.

Secretary of State for Energy

December 1990


13.0.
A 130

CONFIDENTIAL

MR POTTER

14 December 1990

COAL INDUSTRY BILL

The Prime Minister can endorse the policy approach set out in Mr Wakeham's memorandum.

The key point is that the level of provision would cover a reduction in the labour force to 20,000 by March 1994 which is the bottom end of the range envisaged in British Coal's contingency plans.

The Opposition will question the outlook for jobs but the fact that the Bill extends the period within which the restructuring grants can be paid up to March 1996 makes it quite clear that no-one is trying to anticipate the outcome of the contract re-negotiations with the electricity generators in 1993.

Mr Wakeham notes that the level of the grant is not to be increased above the present 90% limit of restructuring costs - which provides British Coal with a incentive to economise - but he does say that it is a question to which we shall have to return when the major reorganisation anticipated for 1993 takes place. It must be right to keep that option open given our longer term plans for the industry over that period.

Hitherto, the restructuring grant with its supplementary lump sum for voluntary redundancy has enabled British Coal to carry through a big programme of rationalisation quite smoothly. Perhaps one should just note that almost two-thirds of the remaining mineworkers are men who have already moved from one pit to another (and sometimes twice) so resistance to further pit closures may be stiffer in the future - but the basic formula is recognised to be a generous one.

Howell Harris Hughes

HOWELL HARRIS HUGHES

hhh11

CONFIDENTIAL

SWH

File 2 f

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 December 1990

Dear John

COAL INDUSTRY BILL

The Prime Minister has seen your Secretary of State's minute of 13 December and, subject to any views which colleagues have, he is content for your Secretary of State to proceed as he proposes.

I am copying this letter to the Private Secretaries to Members of E(A), Jenny Rowe (Lord Chancellor's Office), Sonia Phippard (Cabinet Office) and Peter Moore (First Parliamentary Counsel's Office).

Yours ever

Dominic

DOMINIC MORRIS

John Neilson, Esq.,
Department of Energy

CONFIDENTIAL

DSS

CCPS

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
071-276 3000

My ref:

Your ref:

The Rt Hon John Wakeham MP
Secretary of State for Energy
1 Palace Street
LONDON
SW1E 5HE

18 December 1990

Dear Secretary of State

COAL INDUSTRY BILL

I am content with the proposal for a very short Coal Industry Bill set out with your minute to the Prime Minister of 13 December.

Copies go to the Prime Minister, other members of E(A), the Lord Chancellor, Sir Robin Butler and first Parliamentary Counsel.

Yours sincerely

MICHAEL HESELTINE

Approved by the Secretary of State and signed in his absence

n.b. P.M.
BAP 9/1
cc PM

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 071-270 3000 (Switsfwrdd)
071-270 0538 (Llinell Union)
Fax: 071-270 0561

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 071-270 3000 (Switchboard)
071-270 0538 (Direct Line)
Fax: 071-270 0561

From The Secretary of State for Wales

The Rt Hon David Hunt MBE MP

CT/12005/90

8th January 1991

Dear John

Thank you for copying ~~to~~ me your minute to the Prime Minister dated ~~13~~ 14 December which sought agreement to your proposals for a Coal Industry Bill. I am content for you to proceed as proposed.

I am copying this letter to the Prime Minister, Members of E(A), the Lord Chancellor, Sir Robin Butler and First Parliamentary Counsel.

Yours ever

David

Rt Hon John Wakeham MP
Secretary of State for Energy
1 Palace Street
LONDON

NAT IND Com PT22