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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

COLLIERY CLOSURES AND COAL STRATEGY

Memorandum by the Secretary of State for Energy

Since we agreed a financial strategy for the coal industry in autumn 1979, its performance has greatly improved. But markets have moved against it. The prospect is now of overproduction of coal for the next four years. I attach a longer paper which explains the position more fully. In brief, National Coal Board (NCB) have now grasped the nettle and resolved on the rapid elimination of high-cost capacity. They plan to eliminate 18 mtpa uneconomic capacity over the next five years, 14 mt of it by the end of 1983-4. 34,500 men would be affected in the next three years but natural wastage would mean that only 26,500 jobs would be lost, of which some 16,500 are held by men over 55 years of age. NCB will accompany these closures by other action to contain costs.

2 NCB believe that those closures can only be achieved if by improving redundancy terms they can get the acquiescence of the miners, despite the opposition of the NUM. NCB have already broached their closure plans with the mining unions, whose militant elements are making every effort to politicize the issue. I suggest that our objectives must now be to facilitate these closures, which are essential to the economic future of the industry; to present coal's ability to contribute to our long-term energy strategy; and to convince the public and the miners that this is our intention by maintaining the investment programme.

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3 The first issue must be whether to press the Board to seek more or faster closures or to accept their judgement. Although more closures may ultimately be needed, those now proposed are the essential first step, and, if carried through, will clear the way for future closures later. The attempt to force the Board to seek more or faster closures now would end in our accepting full responsibility for what ought to be the Board's decision and our being thrust into direct confrontation with the unions. This would only make a national strike more likely.

4 NCB have already cut back their plans for new long-term capacity. We should not press them to make further cuts in investment which would call in question coal's long-term future and make it harder to get the miners to accept the closures. If overproduction after 1985-6 is still likely, additional closures at the time would be a better way of eliminating it than further cuts in major capital projects, which would be bound to reduce the industry's future efficiency.

5 Additional funds are needed and should be directed to relieving the Board of the costs of closures. I estimate that the costs (including £50m a year for RMPS improvements) down to 1984-5 as:-

1981-2	1982-83	1983-84	1984-85
102	109	133	148

Ideally this extra support would be taken out of the Board's EFL. This would automatically ensure that the money would be spent only on meeting the cost of closures. We could then also reaffirm the strategy EFL's. A less satisfactory alternative would be to increase the Board's EFL, but to work out measures to ensure that the additional support was segregated within it, so that again the money could only be used for closures.

6 Against the costs of the closures given in paragraph 5 must be set the benefits to the Board's cash position and so to the PSER. These could be very substantial by 1985-6 - perhaps £450m a year, and more thereafter. The size of the benefits shows the importance of the Board's achieving the closures.

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7 The NCB have also asked for Government support to maintain coal demand at 120m tons, especially by displacing imports. I am sure that we should stand firm against suggestions to shelter NCB against salutary import competition.

8 I have however, already proposed to the Chancellor that for other reasons we should spend £25-35m over the next two years to encourage oil substitution in industrial boilers.

9 Closures initially worsen NCB's profit and loss account. The resulting deficits will accumulate on their balance sheet at least until 1983-84. Therefore, without increasing the Board's EFL, there is a good case for giving them more Deficit Grants, offset by an equal reduction in their borrowing, to avoid this accumulation which would appear to belie the Board's long term viability.

RECOMMENDATION

10 I recommend to my colleagues that:-

- (i) the Government should reaffirm its determination to ensure a future for the coal industry by maintaining profitable investment in modern capacity;
- (ii) social grants should be made to NCB to relieve them of the costs of pit closures. This money would be additional to the Board's EFL's. It would be paid only to meet the costs of closures actually achieved;
- (iii) we should agree the improved redundancy terms set out in Annex B to the attached paper;
- (iv) without increasing their EFL's the Board should receive extra deficit grants offset by a reduction in their borrowing, to put them into a break-even position (as explained in para 9 above).

The costs of (i) and (ii) are given in paragraph 5.

Department of Energy
17 February 1981

D A R H

NOTE ON COLLIERY CLOSURES AND COAL STRATEGY

1. In November 1979 I settled with the Chairman of the National Coal Board a financial strategy under which the NCB would break-even on revenue account from 1983-84 onwards and would receive tapering amounts of grants to support their operations over the intervening years.
2. NCB have sought to achieve those objectives. In many respects, they have made good progress:-
 - i. deep-mined output is expected to be 109.9mt this year compared with 105.5mt in 1978-79. Colliery manpower will average under 230,000 for the year compared with 236,000 in 1979-80;
 - ii. the Board have made a start on the necessary elimination of uneconomic pits, and expect to close 2.0mt capacity in 1980-81, instead of the 1.5mt on which the Financial Strategy was based;
 - iii. they have begun to secure new attitudes among their workers; absenteeism has fallen to the record low level of 11% in January.
3. The benefits secured by these improvements, however, have been overshadowed by the reduction in demand for coal caused by the recession and by NCB's need to cut prices to retain markets and secure cash flow within EPLs. The following table compares the figures on which the present Financial Strategy was based and the figures in the NCB's latest review of their position. It shows the drop in expected demand for coal, and the price which NCB can expect to realise as well as expected production and expected levels of NCB stocks at the end of each year, in the absence of any corrective action.

ALL MONEY AT SEPTEMBER 1980 PRICES

- Line (a) 1979 Strategy Review
Line (b) 1981 Coal Policy Review

2.	1980-81 Latest Estimate	1981-82	1982-83	1983-84
NCB output (mt)				
(a)		123	125	128
(b)	127.1	122	120	118
NCB sales (mt)				
(a)		123	125	128
(b)	118.5	118	115½	115
NCB year end stocks (mt)				
(a)		9	9	9
(b)	21	25	29½	32½
NCB sales revenue (£/t)				
	32.6	34.3 32.3	35.2 32.3	36.1 32.4

4. Fundamental measures are needed to eliminate such an imbalance between supply and demand. NCB have therefore put to me proposals which they believe would enable them to restore the balance between the supply and demand for UK coal and allow them to trade profitably from 1985-86. In essence what the Board proposes is the elimination of 17mt of uneconomic production over five years, 14mt of it in the first three years. Over 26,000 men would be redundant in the first three years, both at the pits which are closed, and elsewhere where older men would be offered redundancy to make room for younger men transferred from the pits which closed. The numbers and ages of men affected, with a regional analysis are at Annex A. NCB believe that they can only secure these necessary closures with an improvement in the present redundancy terms directed especially at the older men and pitched at a level which will make it attractive for older men at continuing pits to take voluntary redundancy to make way for younger men. The improvements in redundancy terms which the Board propose are at Annex B, together with a comparison with the terms now offered to steel workers and shipbuilders.

5. With the higher closures now planned NCB's forecast of their financial position for the rest of the Financial Strategy Period based on their latest estimates of production and unsupported demand for coal and on the higher closures planned, is:-

3.

£m September 1980 Prices

TABLE 2

<u>Profit and Loss Account</u>	1981-82	1982-83	1983-84
Loss before Deficit Grant	322	227	201
<u>Cash Requirements</u>			
External finance required	984	867	726
EFL under Financial Strategy	787	657	514
Excess over agreed EFL	197	210	212

A note on NCB's assumptions underlying these figures is at Annex C.

6. NCB have asked for their EFL's to be increased to cover:-
- i. the increased social costs resulting from the faster closure programme;
 - ii. their need to make price concessions to secure sales;
 - iii. Government action to safeguard sales of 120mt pa until 1985-86, partly by measures which would reduce imports of coal;
 - iv. an increase in the proportion of grants in their external finance to enable them to achieve break-even.
7. NCB believe that they cannot expect to achieve the closures which they need without improvement in redundancy terms. These are described in Annex B; broadly speaking they involve:-
- i. for men over 55 years of age:-
 - extend RMPS weekly payment from present three years from redundancy to five years from redundancy (or age 65 if that is earlier);

4.

- pension under Mineworkers Pension Scheme (MPS) enhanced by number of years between redundancy and age 60;
 - additional lump sum greatest for men of 55, tapering to nothing at 60 or over;
- ii. for men aged 50 to 54:-
- extra lump sum;
 - pension under MPS enhanced by 5 years and paid immediately;
- iii. for men up to age 49;- extra lump sum, £1000 for those below 40; £1500 for those aged 40 and over.

The total cost of these improvements might be around £50mpa rising to £60mpa and the total cost falling on both NCB and Government of the 18mt closures (including costs already foreseen for 1.5mt pa closures within Financial Strategy) might be:-

£m September 1980 Prices

	1981-82	1982-83	1983-84	1984-85
of which	234	247	270	287
additional	102	109	133	148
public expenditure:				

8. This cost seems considerable but there are two points which should be borne in mind:-

- i. part of it will be offset by a small saving of unemployment benefits which the men made redundant would claim if they did not receive weekly payments under RMPS or early payments of pensions.
- ii. Annex D shows the effects on NCB's cash flow and accounting results. It shows that the additional public expenditure is less than the additional cash needs for the Board if the savings they expect from the closure programme were delayed by one year.

5.

Do the Proposals go Far Enough?

9. The first question must be whether NCB's proposals are a sufficiently resolute approach to the changes needed in the coal industry. Obviously a faster rate of closure would bring the industry back to balance quicker and further reduce the call on the PSBR. The rate proposed by NCB, however, reflects their considered judgement of the fastest rate practicable, and is three times that envisaged in the financial strategy; it will involve loss of up to 27% of jobs in the worst affected areas, S. Wales and the North East. An attempt to substitute the Government's judgement for that of the Board on the size and speed of a closure programme, would directly engage the Government face to face with the unions.

10. However, NCB envisage eliminating 14mt of the 18mt output to be closed, in the first three years. If there is scope for further closures, it must lie in a continuing high rate in the following years, but that is something on which the Board and Ministers need not decide now.

11. As for the possible need for such additional closures, the Board's forecasts of sales are relatively optimistic, and assume a higher rate of growth in GDP than the consensus of outside forecasters. It may be, however, that such outside forecasts make too little allowance for the resilience of private enterprise and for the success of the Government's medium-term financial strategy.

12. We have also to consider whether the NCB's proposals would produce a reasonable supply/demand balance in the longer term. Only if they do so, can they expect to stay on a sound financial footing. The following figures illustrate the possible balance between supply and demand in the years 1990 and 2000.

6.

TABLE 3

	<u>1990</u>	<u>mt</u>	<u>2000</u>
<u>Demand</u>			
UK demand, assuming 2% average GDP growth 1980-2000	127		157
Estimated demand, assuming average 1% GDP growth 1980-2000	112		125
<u>Supply</u>			
Without further NCB investment	117		103
NCB investment in new capacity planned but not approved	7		10
<u>TOTAL</u>	124		113

It is clear that there is little prospect of surplus coal production in 2000. The position in 1990 is more uncertain, but the following points must be considered:-

- i. the supply figures for 1990 assume only 1mt a year of closures between 1984-85 and 1990. NCB could close the gap between their output, and even the lower level of demand, by continuing an average level of closures of 3mt pa;
- ii. it would make economic sense for NCB to proceed with investment which will bring in more efficient and economic capacity, and to accelerate the closure of older, less economic pits. NCB estimate that, provided they can keep their output and demand in balance, the return on these new projects could be around 25% in real terms;
- iii. it is right that NCB should be exposed to competition from imports and that they should only invest where they can produce coal economically in face of that competition. Equally, my Department's view, shared by the recent report on the planning price of oil, is that imports of coal can be expected to grow steadily more expensive in real terms, so that the penalty for artificially restricting NCB capacity

7.

below its economic level can be expected to grow;

iv. there are links between the level of capital investment and closures. The Board are looking to continuing pits to absorb half of those made redundant elsewhere. If this possibility is not open, the number of redundancies will be increased and the atmosphere in which they must be achieved made still more difficult.

Possible Offsetting Measures

13. Although the proposed closures will contribute increasingly to reducing NCB's cash needs from 1982-83 onwards, the Board's cash requirements continue high, and I have examined other measures which they could take to reduce their calls upon the PSER. The possibility of further closures has been discussed in paragraph 9 above, and of cuts in capital investment in paragraph 12 above. There are three further expedients which might be considered in the short term increases in prices, cuts in output, and cuts in short-term capital investment.

14. The continuing losses on revenue account strongly suggest that coal is at present under-priced and a possible alternative option for the Board would be to make substantial increases in real prices, even at the expense of the volume of sales. Given the present state of the coal market, any such increase would fall most heavily on the CEGB, and through them on the electricity consumer. Since NCB coal is competitive with imported coal at most power stations except those on the Thames Estuary, there would be obvious scope for the NCB to sacrifice sales at those power stations and force up prices elsewhere. Such a rise would be a further burden on industry and cannot be the right way for the NCB to solve its difficulties.

15. Cuts in production would be possible, but since the Board would save only the marginal cost of production at a continuing pit or opencast site, their profits would be reduced. The possible effects for each million tonnes of output avoided, and the practical scope for such measures might be as follows:-

8.

	<u>Cash Saving</u>	<u>Revenue Account Loss</u>	<u>Practical Scope</u>
Cutting back opencast	18	8	1mt pa/ per year
Cutting deep-mined production at continuing pits	13	13	up to 10 mt

There is, therefore, scope for savings in this way. However, substantial reduction in the NCB's cash needs could only be made by large cuts in output at continuing pits. These cuts would not only increase the difficulty of redeploying trained younger men whom the Board wish to retain, from closing pits, but they would also add to the number of redundancies. NCB estimate that a reduction of 10mt pa in deep-mined output from continuing pits, would lead to a further 2000-2,500 redundancies each year. This would add to the difficulties of achieving the planned level of closure. Further, the resulting substantial increase in the Board's expected deficit would be politically embarrassing, and would place the Board in breach of their statutory duty to break-even taking one year with another.

16. Much of the Board's uncommitted capital expenditure is on minor projects and plant pool which maintain rather than increase capacity in the short-term or improve efficiency. It is obviously impossible to say that no cuts at all are possible in the mass of minor projects. However:-

i. much of the investment directly raises efficiency and keeps down operating costs. For example, at the extreme, the Board could save £20m in 1981-82 by equipping 10 faces with ordinary instead of heavy-duty machinery. However, on the assumption that the heavy-duty machinery would yield an extra 300 tonnes per day from each face (about half the average increase actually achieved) the extra expenditure could add £12m to their profits in each full year of operation. Such investment allows the Board to concentrate on modern profitable pits, closing less economic capacity elsewhere. This is surely exactly the sort of investment which we ought to be encouraging.

9.

ii. Cuts in this class of expenditure would inevitably fall on machinery. The cuts already made by the Board since last year have fallen disproportionately on plant pool (because so much of the expenditure on major projects was committed). Plant pool expenditure has therefore been cut by 36%. A further cut of, say, £60m would mean a total cut in this expenditure of over 60%. The impact on the mining equipment manufacturers would inevitably be severe, and would seriously damage their ability to compete in world markets.

17. The conclusion must be that NCB cannot eliminate their difficulties in any of these ways, although we should not necessarily exclude the possibility of some reduction in output, even at the price of worsening their deficits.

Improving NCB's Markets

18. NCB have asked for Government assistance to enable them to secure a steady 120mt of sales each year. What they have in mind is Government pressure to exclude imports. The pressure on NCB prices and efficiency from imports has been salutary and contributed towards their present readiness to accept drastic measures. But imports are an emotive subject for NUM as well as adding to NCB's short-term difficulties in matching supply and demand. The right course is to encourage NCB to find the most cash-efficient means of maintaining their sales, which will require additional financial resources.

19. I have, however proposed in a different context that we should support the conversion of industrial boilers from oil to coal-firing. There is abundant evidence that private sector companies are holding back from many worthwhile schemes in present conditions of capital rationing. The prime aims of such a scheme would be to reduce our long-term dependence on oil and to help the boiler making industries but it would also help NCB. I have suggested a scheme costing £25m-30m over the next two years might lead to additional coal sales of some 1mt pa. It must make better sense to spend the money in this way than to add over £30m to NCB's EFL to stock that amount of surplus coal with no wider and continuing benefit to the economy.

10.

"Downside Risks"

20. The estimates in this paper take no account of the possibility that economic growth may be lower than NCB expect (if paragraph 11 above). If so, markets for coal, especially the crucial electricity market, would be further depressed.

Possible Action

21. Any assessment of NCB's needs must be based on the likely market for their coal without special Government measure to reduce imports, or to secure additional boiler conversions. On this basis, and assuming the improved redundancy terms which NCB believe are necessary to secure increased closures without a confrontation, the figures in Table 2 show that, even with the substantial cash savings resulting from the new closure programme, NCB would still be likely to exceed their EPL's by some £200m a year, until they bring supply and demand into balance. If they were required to eliminate this excess without further assistance, the necessary measures would involve near cessation in capital investment and cuts in production and so would make it harder to secure closures without confrontation, would push up NCB's costs as well as falling savagely on the mining machinery industry. Maintaining the existing level of external financing is not a realistic option.

22. However, we could maintain the Financial Strategy EPL's unchanged if we relieved the Board of the costs of the closure programme. There would be two elements in this additional expenditure. Part would be additional payments direct to the men involved under the Redundant Mineworkers' Payments Scheme (RMPS) and similar arrangements of about £30m pa rising to £37m pa in 1984-85. These would be borne directly on Votes. The rest would take the form of a Government contribution to the costs of closures which fall on NCB. We should need a short Bill next Session to increase this contribution from its present 50% share of these costs to cover them all as well as to deal with the NCB's accounting deficits (see paragraph 25 below).

23. On NCB's current estimates of the numbers of men affected the increase in public expenditure would be:-

£m . September 1980 Prices

	1981-2	1982-3	1983-4	1984-5
	102	109	133	148
Of which payments direct to men under RMPS etc	32	40	54	71

The increase in social grants to NCB would however be greater than the difference between the two lines above by the amount of the relevant expenditure which they would previously have borne themselves.

Increases on pit closure grants to NCB	95	96	105	104
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24. We should need to ensure that this additional help could be used only for its intended purpose. Payments made direct to the men, pose no problem. There are two possible ways of dealing with grants towards costs of closures which are paid to the Board. Ideally they would be taken out of the Board's EFL altogether. Failing that, officials would need to work out some arrangement to segregate those grants within the Board's EFL, so that they could not be diverted to finance continuing losses.

25. Although the planned pit closures would produce increasingly large cash savings from 1982-83 onwards (rising to over £450m in 1985-86), they worsen the Board's accounting profits until then. The deficits on the remainder of the Financial Strategy Period might run at £27m, £30m, £65m in the remainder of the Financial Strategy Period on the basis of NCB's plans. Although the question is one of judgement, these deficits seem too large to be carried forward over the next five years. The simplest solution would be to provide within the Board's EFL, additional Deficit Grants of the sums mentioned. (All are at September 1980 prices and would need to be revalued to money of the day). Legislation would be needed next Session to raise the present limit on Deficit Grants. (See paragraph 22 above).

12.

26. This new regime should be coupled with an explicit performance aim. NCB's own plans involve an annual reduction in unit operating costs averaging 1.5% in real terms over the period 1981-82 - 1983-84 and beyond that to 1985-86. Even allowing for the effects of closures and investment this is an ambitious target. We should hold the Board to it.

Summary

27.

i. Because of the difficult market conditions which will face them over the next five years, the NCB have resolved on radical action to bring their output into line with demand. They plan to close 18mt capacity over the next five years, 14mt of it over the next three years. It is very much in line with our wishes that they should take this opportunity to make long-needed changes;

ii. NCB believe that this rate of closures is the highest that can be achieved without national confrontation with the mining unions. Even so, they are convinced that improved redundancy terms are essential to enable them to persuade rank-and-file union members to accept closures;

iii. we must help them to carry through their programme by:-

- relieving them of all social costs of pit closures;
- within their EFL increasing the sums paid as Deficit Grant;

iv. in addition it would be cost effective as well as psychologically helpful to spend £25-35m over the next two years to encourage boiler conversion;

13.

v. this new regime should be backed up with a performance aim based on NCB's own estimates of the possible reduction in unit operating costs;

vi. legislation would be needed on Session 1981-82 to increase the proportion of closure costs which should be covered by grants and to raise the present limits on the amounts of Deficit Grant which can be paid to the Board.

Department of Energy

17 February 1981

Category	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	Total
Operating Costs	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Capital Expenditure	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Revenue	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Subsidy	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Deficit Grant	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Other	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,000
Total	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	55,000

PROPOSED REDEPLOYMENT OF INDUSTRIAL GRADES OVER YEARS 1981/82-1983/84

AREA	MANPOWER AT 31. 3.80	MANPOWER AT CLOSING COLLIERIES	LOCAL REDEPLOYMENT	REDDUNDANCY					REDDUNDANCY AS % OF 31. 3.80 MANPOWER
				(a) AT CLOSING COLLIERIES				(b) OVER 55 ^a AT LOCAL CONTINUING COLLIERIES	
				UNDER 50 (Long Distance Transferees)	50-54	55+	TOTAL		
SCOTTISH	21,000	2,200	1,000	400	300	500	1,200	700	9
N. EASTERN	33,000	10,700	4,800	2,200	1,500	2,200	5,900	3,100	27
N. YORKSHIRE	16,000	2,000	1,500	-	200	300	500	400	6
DONCASTER	17,000	-	-	-	-	-	-	-	0
BARNSLEY	16,000	-	-	-	-	-	-	-	0
S. YORKSHIRE	17,000	2,000	1,400	-	200	400	600	600	7
N. DERBYS	12,000	-	-	-	-	-	-	-	0
N. NOTTS	18,000	-	-	-	-	-	-	-	0
S. NOTTS	16,000	1,700	1,200	-	200	300	500	600	7
S. MIDLANDS	17,000	2,500	1,700	100	300	400	800	1,000	11
WESTERN	23,000	5,400	2,700	900	800	1,000	2,700	1,700	18
S. WALES	26,000	8,000	3,700	1,900	1,000	1,400	4,300	1,900	24
TOTAL		34,500	18,000	5,500	4,500	6,500	16,500	10,000	

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ANNEX A

NON-INDUSTRIAL REDUNDANTSOVER YEARS 1981/82-1983/84

SCOTLAND	310
N. EASTERN	535
N. YORKSHIRE	180
DONCASTER	125
BARNLEY	140
S. YORKSHIRE	225
N. DERBYSHIRE	100
N. NOTTINGHAMSHIRE	155
S. NOTTINGHAMSHIRE	175
S. MIDLANDS	200
WESTERN	375
S. WALES	445
TOTAL	2,965
HQ etc	1,060

 4,025

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ANNEX B THE BOARD'S PROPOSALS FOR INCREASED REDUNDANCY TERMS

1. The NCB feel that the increased level of staff redundancies proposed can be dealt with through the existing terms available to staff (see below). But they are certain that to achieve the desired level of closures, improved redundancy terms for industrial / necessary. Important points to bear in mind are that:

- a) Most of the redundancies will be in areas of high unemployment.
- b) Most of the redundancies will be men aged 50 or over with some 60% being aged 55 or over. It is just not realistic to expect that a significant number of these men - many of whom are in poor health after a long career which began when working conditions underground were much less good than they are now - will be able to find new jobs. If they are not provided with money on which they can subsist until age 65, they will claim supplementary benefit.
- c) About 40% of the redundancies proposed are of men over 55 at continuing pits who make way for younger, trained and fitter men from closing pits. To try to achieve such redundancies compulsorily could leave NCB open to action before Industrial Tribunals, and would in any case be impossible in industrial relations terms. These men have to be persuaded to accept redundancy voluntarily.
- d) The attitude of the mining unions to closures, has been made very clear. Increased terms however would give a good chance of reducing support amongst the membership for the more radical elements of the leadership and reducing the scope for co-ordinated opposition to closures.
- e) Because so many of the redundants will be elderly, and because they will not be concentrated at closing pits but dispersed around local continuing pits, special action to encourage new industry to come to the localities of pit closures would not seem appropriate. But the improved terms would go a long way towards maintaining spending power in the areas most affected.

2. Table 1 attached sets out the existing redundancy terms for mineworkers, and the new proposals. Points to note are that:

- a) For men aged 55, it is important to make the terms as attractive as staying at work to age 60 and then taking Voluntary Early Retirement under the NCB scheme introduced in 1977. This scheme provides for two-thirds pay to age 65. The redundancy improvements match this and also improve the man's pension to that which would be given by service to age 60. They also provide some lump sum payments, such as the present terms for this age group do not now provide.
- b) Men age 50 to 54 declared redundant may not have very good chances of finding employment. The new terms would give them an increased lump sums and a continuing benefit element which they do not now have.
- c) Most of the men aged under 50 will be long distance transferees rather than final redundants: the increases proposed are modest.

3. Redundancy schemes are operated in other industries - notably steel and shipbuilding/and it is possible that an improvement in redundancy terms for mineworkers will lead to demands for improved terms for those or other categories. In the past, there has been little evidence that different categories of workers do make such comparisons, which in any case are not very meaningful because of widely varying circumstances of each industry and aims of their redundancy policies, which result in very differently constructed schemes. However, it is worth noting that in terms of the lump sum payments received immediately on redundancy, the new terms would not be grossly out of line with steel terms if the steel industry 'ex gratia' payments at recent levels (a year's earnings) are included. The new terms would be higher in the 50-54 age range but lower for men under 50. This reflects the circumstances of the coal industry where the aim is to redeploy as many men under 50 as possible.

4. It must be said that the increase in continuing weekly payments under the proposed coal terms would put them well ahead of steel or shipbuilding for certain age groups. But this comparison is rather unrealistic in that the other schemes provide continuing benefits only for fairly short periods (two years at most). Subsequently many of the beneficiaries can be expected to be drawing supplementary benefit at rates comparable to the benefits provided under the coal scheme. In presentational and industrial relations terms, it is of course much better to offer men definite benefits rather than to ask them to claim supplementary benefit.

5. The NCB estimate that the average total payment under RMPS to men age 55 or over at redundancy would be increased by the new proposals from about £20,000 to about £27,000.

6. Any 'repercussive' effects might be reduced if increased payments were made by the NCB rather than by Government. However, this would make the payments more difficult to control. In particular, if the NCB rather than Government had to offer the two years extra RMPS benefit, the pressure to make it apply also to men declared redundant in the past three years and already drawing RMPS benefit would be very strong. This would result in increased costs of some £10 million in each of the next two years.

7. In considering these comparisons it should also be borne in mind that foremen and junior non-industrial staff of the NCB (including some NUM members) have for many years enjoyed redundancy terms with many of the features now proposed for mineworkers (immediate pension on redundancy at 50 or over, added years in some cases) without particular 'repercussive' effect.

8. The costs of in the years of the closure programme/the increases proposed are estimated to be as follows:

- a) The increased lump sums - about £30 million per year.
- b) The increased and earlier pensions, assumed paid for by the same procedures of capitalized reimbursement of the pension funds as are present benefits of this kind - about £16 million per year. This represents about half the total costs, the rest of which would be payable later in respect of cost-of-living increases. Changes to the procedure for capitalization could result in a considerable reduction of this figure and also in the approximately £40 million per year that the existing pension terms would cost for the increased number of redundants in the early years. Such a reduction would not be a real saving since the remaining costs would be paid later, but it would reduce the immediate burden to Government and NCB of the closure programme. This question is being investigated further with NCB though it would need to be negotiated with the union representatives on the pension fund committees.
- c) The extended RMPS weekly payments would not cost anything until 1984/85 (provided pressures to provide them for men already redundant can be excluded, see para 4 above), and would then cost some £7 million in 1984/85, £20 million in 1985/86, and £77 million after that date (for men declared redundant up to March 1985).

- d) The NCB also propose that some transfer allowances be increased to encourage the redeployment required. The changes would do no more than cover for inflation since the allowances were last set in cash terms. The cost would be about £2 million per year.

9. The total cost of the increased terms in the first three years is thus about £48 million per year; some reduction in this is possible if the capitalization of the increased pensions can be spread. Total costs of the increased terms applied for men redundant in each year at the higher closure rate are some £90 million of which the £48 million mentioned above is payable immediately on redundancy, most of the rest not for three or more years subsequently.

AGE AT REDAUNDANT	YEARS' SERVICE	EPIC/ACT PAYMENT	STEEL LUMP SUMS	WIPES LUMP SUMS	MINOR/MAJORS LUMP SUMS	MINOR/MAJORS LUMP SUMS
25	5	480	8740	300	300	100
26	10	1080	7040	300	600	100
27	15	1680	7140	300	1500	100
28	20	2280	7240	300	2500	100
29	25	2880	7340	300	4200	100
30	30	2940	7370	3740	5000	1000
31	35	3180	8090	4500	6000	1000
32	40	3240	8120	4440	-	1000
33	40	3540	8270	4140	-	-
34	41	3600	8300	4080	-	-
35	42	3600	8300	4080	-	-
36	43	3600	8300	4080	-	-
37	44	3600	8300	4080	-	-

Based on pre-redundancy earnings, £10 per week

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TABLE 1

COMPARISON OF EXISTING AND PROPOSED

REDAUNDARY TERMS FOR MINERWORKERS

PAYMENT DETAILS

MINERWORKERS

COMPARISON OF LUMP SUM PAYMENTS

AGE AT REDUNDANCY	YEARS' SERVICE	EP(C)ACT PAYMENT	STEEL LUMP SUMS	SHIPS LUMP SUMS	MINERWORKERS EXISTING LUMP SUMS	MINERWORKERS PROPOSED LUMP SUMS
25	5	480	6740	300	325	1325
30	10	1080	7040	300	650	1650
35	15	1680	7340	300	1560	2560
40	20	2280	7640	3660	2600	4100
45	25	2640	7820	5040	4225	5725
50	30	2940	7970	4740	5850	11730
54	34	3180	8090	4500	6630	12990
55	35	3240	8120	4440	-	6480
60	40	3540	8270	4140	-	-
61	41	3600	8300	4080	-	-
62	42	3600	8300	4080	-	-
63	43	3600	8300	2265	-	-
64	44	3600	8300	450	-	-

Based on pre-redundancy earnings, £130 per week

COMPARISON OF EXISTING AND PROPOSED
REDUNDANCY TERMS FOR MINeworkERS

AGE AT
REDUNDANCY
(assumed service
from age 20)

PRESENT BENEFIT

PROPOSED BENEFIT
IMPROVEMENT

UP TO AGE 49

- | | |
|---|---|
| <p>1) RMPS LUMP SUM equal (roughly) to $\frac{1}{2}$ week's wage for year of service up to age 35, 1 week age 35 to 45, $1\frac{1}{2}$ weeks age over 45.</p> <p>2) Lump sum payment under Employment Protection (Consolidation) Act 1978</p> | <p>EXTRA LUMP SUM
£1000 (age to 39)
£1500 (age 40 and over)</p> |
|---|---|

AGE 50
TO 54

- | | |
|---|---|
| <p>1) RMPS LUMP SUM equal to $1\frac{1}{2}$ weeks wage per year of service</p> <p>2) EP(C) Act lump sum.</p> | <p>1) EXTRA LUMP SUM equal to twice EP(C) Act lump sum.</p> <p>2) MPS PENSION (increased by the purchase of 5 additional years) payable immediately at present this would be about £17 per week, payable to age 65)</p> |
|---|---|

AGE 55
AND OVER

- | | |
|---|--|
| <p>1) RMPS WEEKLY BENEFIT approximately two-thirds of pay at redundancy for 3 years (or to age 65), followed by</p> <p>2) UNEMPLOYMENT BENEFIT EQUIVALENT (UBE) to age 65 (present rate £20.65/£33.40 per week) and</p> | <p>1) RMPS WEEKLY BENEFIT extended from three years to five (or to age 65 if earlier)</p> <p>2) UBE then to age 65</p> |
|---|--|

3) MPS PENSION AND LUMP SUM
(minimum £8.92 p.w.)
payable with (2) above

3) MPS PENSION then
enhanced by
number of years
between redundancy
and age 60 (at
present the
average would be
about £12 per
week)

4) EP(C) Act lump sum.

4) ADDITIONAL LUMP
SUM - 200% of
EP(C) Act payment
at age 55, 150%
at age 56, 100%
at age 57, 75%
at age 58, 50%
at age 59,
nothing at 60
or over.

Electricity Demand Growth:

Conservation of final energy 1975-2000:

- Domestic sector: 10%
- Commercial sector: 20%
- Industrial sector: 3-50% depending on industry.

RPI fuel prices: No real increase in 1995 unless pushed
by higher international real prices.

RPI water: No real increase in real water cost in 1995.

Non-wage operating costs: real increase in cost per unit
for goods and services of 2% or
at constant price.

Productivity: 2.5% per average increase.

PIB closures: closure of 18 or capacity during plan period,
of which 12 or in first 3 years.

Capital Expenditure: Rising capital expenditure of 25%
(1995-2000) in 1995-2000 and 25% or
thereafter.

ASSUMPTIONS IN NCB'S COAL POLICY REVIEW

A EXTERNAL

- 1 GDP: 1980-85 1% pa average increase, growth resuming in 1982/83.
 1985-90 2% pa average increase.
 1990-2000 2½% pa average increase.
- 1980-2000 average 2% pa increase in GDP.
 1980-2000 average 1% pa increase in industrial output.
- 2 Oil prices: no real increase until (year) 1985; real increase of ½-1% pa 1985-1990.
- 3 International Coal prices: no real increase in steam coal or coking coal prices before 1985.
- 4 Electricity Demand Growth:
 1979-2000: 1.5% pa average increase.
- 5 Conservation of final energy demand by 2000:
- | | |
|-------------------|------------------------------|
| Domestic sector | 19% |
| Commercial sector | 20% |
| Industrial sector | 5-20% depending on activity. |
- B INTERNAL
- 1 NCB Coal prices: No real increase to 1985 unless justified by higher international coal prices.
- 2 Wage costs: no real increase in wage costs per man to 1985.
- 3 Non-wage operating costs: real increase in cost per tonne for goods and services of 2% pa at continuing pits.
- 4 Productivity: 2.2% pa average increase.
- 5 Pit closures: closure of 18 mt capacity during plan period, of which 14 mt in first 3 years.
- 6 Capital Expenditure: Mining capital expenditure of £650m (1980/81 prices) in 1981/82, and £670m pa thereafter.

<u>Cash Requirements</u>	1981/82	£m September 1980 prices	
		1982/83	1983/84
EPR	939	831	689
<hr/>			
Total costs saved	101	262	405
<u>less</u> continuing costs	23	46	49
<hr/>			
Net cash operating cost savings	78	216	356
<hr/>			
EPR without savings	1017	1047	1045

Note: Cash outflow savings if coal produced from collieries closed would otherwise be put to stock.

<u>Revenue account</u>	£m September 1980 prices		
	1981/82	1982/83	1983/84
Loss before deficit grant	322	227	201
Improvement in operational results as a result of closures	38.9	101.2	144.8
less continuing costs at collieries closed	(23.4)	(46.1)	(49.4)
	<hr/>		
Net improvement in operational loss	15.5	55.1	95.4
	<hr/>		
Residual loss before social grants	306.5	171.9	105.6
Note: Deficit grant under financial strategy	112	29	