Ref. A04875

PRIME MINISTER

NCB Finances
(E(81) 57 and E(81) 58)

BACKGROUND

886

The EFL for the National Coal Board for 1981-82 is £886 million. This limit was set before the events of February/March (arising from the NCB's attempt to implement a faster colliery closure programme) when Mr Howell, on authority, said to the NCB and the mining unions that:

(a) The Government stood by Plan for Coal.

(b) The Government would look at what could be done to reduce coal imports to the irreducible minimum.

(c) The Government was prepared to discuss with both sides of the industry the financial implications of abandoning the closure programme and reducing imports "with an open mind and also with a view to movement".

2. The NCB were authorised in the continuing tripartite discussions to make known that their estimate of the cost of withdrawing the closure programme and replacing imports was in the range of £100 to £200 million.

1406

3. Mr Howell's latest paper (E(81) 57) reports that the NCB have now re-worked their figures and asked for an EFL for 1981-82 of £1, 406 million. This request is based on assumptions that:

(a) Capital investment of £924 million should be undertaken in 1981-82 as against the £765 million for which the NCB have investment approval (given in autumn 1979 and relating to 85 per cent of the capital expenditure which Ministers then envisaged under the financial strategy).

(b) A wage increase of 13 per cent from 1 November 1981.

(c) An assumed price increase for coal sales to the CEGB (much the largest customer) of 6.3 per cent from 1 November.

4. Mr Howell suggests that the Board's requested £1, 406 million EFL should be cut back to £1, 200 million by:

(a) Reducing their call for investment funds by £99 million.

(b) Assuming a 7 rather than a 13 per cent wage increase (saving £60 million).

(c) Reducing production from continuing pits (without pit closures) and thus shedding some men. The saving in cash terms might be about £50 million.

(d) Acceptance of the NCB's proposals on coal prices - while recognising that there may be an unquantified extra call for cash to meet any help given to electricity consumers through discounts in the price of coal, any costs required in reducing the price of coke to foundries and any additional costs in moving coal stocks to power stations. The first and second of these factors are due to be discussed by MISC 56 under your chairmanship on Thursday.

5. In addition to setting a capital expenditure figure of £825 million and increasing the EFL to £1, 200 million (the use of the word "cut" in paragraph 11(b) of E(81) 57 is a little odd) Mr Howell suggests that the proportion of grant to loan finance to the NCB should be increased; that the grants (other than "social grants") should be consolidated into a single "revenue support grant" which would be paid to the NCB before profit and loss are struck; and that "better use" should be made of the existing provision for making deferred interest loans to the Board. The last two measures are designed to improve the appearance of the balance sheet.

6. In his paper (E(81) 58) the Chief Secretary objects to most of these proposals. In particular he argues that:

(a) The NCB's capital approval should be £765 million (ie the level of the "existing approval").

(b) That the EFL should be £1,100 million (in effect that already agreed plus the upper end of the announced cost of deferring closures and backing out imports).

(c) That the new grant should be paid after profit and loss have been struck so as to give a true account of the Board's performance in its books.

(d) That deferred interest loans can be accepted, and indeed should extend to the deferment of repayments of principal as well as interest, but that payments of interest deferred should count against the EFL which should be reduced accordingly.

7. The fact is that the NCB, in its present form, is to all intents and purposes bankrupt. The loss this year is likely to exceed £600 million (see Annex B-I which shows an operating loss of £255 million plus an interest charge of £371 million). Moreover even these figures are struck before allowing for the cost of further price concessions on electricity coal or foundry coke. In addition there must be a substantial uncertainty about the level of this year's wage increase (though at £20 million for each 1 per cent on the wage bill the figures are swamped by the other adverse elements: if big money is to be saved in a hurry it has to come from investment and the running down of coal stocks).

8. Underlying the whole of the Secretary of State for Energy's approach to the problem was an overriding anxiety to avoid another confrontation with the NUM and an acceptance of the NCB's own assessment of its inability to either cut costs or to win a propaganda battle designed to show the individual mineworker (especially in the continuing pits) where his best interests lie. It may be that this fatalism is justified. If so, your colleagues may feel that the Chief Secretary's proposals are about as far as they dare go, and Mr Howell will no doubt argue that the Chief Secretary goes too far. The alternative is a radical reconstruction of the NCB which has been mentioned before in Ministerial discussion and again now in the Secretary of State for Energy's paper but which would no doubt itself provoke a confrontation with the NUM and on which no specific proposals have so far been made.

HANDLING

9. You will want to invite the Secretary of State for Energy to introduce his paper and the Chief Secretary to introduce his. As it is probably unrealistic to think that better results than the Chief Secretary's proposals can be achieved in the short term, the choice then comes down to inviting colleagues to choose between the views of the Secretary of State for Energy and those of the Chief Secretary, Treasury. You might however also want the Committee to come to a conclusion on whether it is prepared to go on with the NCB in its present form or under present management or whether it wants early and urgent proposals for a radical shakeup.

CONCLUSIONS

10. These will follow from the discussion but might be

Either -

(i) endorse the Secretary of State for Energy's proposals in E(81) 57;

or

(ii) endorse the Chief Secretary, Treasury's proposals in E(81) 88;

and

(iii) invite the Secretary of State for Energy to bring forward early proposals for the reform of the NCB, the NCB's management, or both.

D J Wright

Robert Armstrong

(approved by Sir R Armstrong and signed on his behalf)

12th May 1981