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CABINET

COAL INVESTMENT

Memorandum by the Minister of Fuel and Power

I told my colleagues earlier this year (C.M.(56) 8th Conclusions, Minute 9) that I was awaiting the submission by the National Coal Board of a revised development programme for the industry. I have now received the Board's proposals.

2. New legislation to extend the Board's borrowing limit will be necessary to give effect to this programme, as the present borrowing powers will be exhausted by the summer. I have already obtained the agreement of the Home Affairs Committee to the introduction of a new Borrowing Powers Bill, and it is desirable that the Bill should have its Second Reading early in May.

3. The purpose of this paper is to acquaint my colleagues with the general lines of the Board's proposals and to ask them to agree that the Bill should increase the Board's borrowing powers by £350 millions.

The Board's Development Programme

4. Investment, neglected in the past, has been one of the most important tasks facing the Board since its inception. It is estimated that the industry loses about four million tons of coal a year as seam conditions deteriorate, as distances underground lengthen, and as numbers of faces, districts and pits reach the end of their working life. Investment is therefore necessary for three purposes - to maintain capacity, to increase capacity and to mechanise.

5. It is clear now that the original "Plan for Coal" under-estimated the difficulties involved; both the time and the money needed to sink new pits and carry out major reorganisations proved substantially greater than had been foreseen. As a result effective investment has fallen behind that contemplated and it is only in the last two or three years that it can be said to have got under way.

6. Despite the miscalculations and the inauspicious beginning the results, when analysed, are not discouraging. The major schemes of reconstruction so far completed have each led to a very marked improvement in performance. Unfortunately the completed reconstruction schemes are few. Of the £128 millions spent on major schemes since 1947, schemes worth only £11 millions had been completed by the end of 1955. However pessimistically inclined one may be as a result of the past, there is solid ground for believing that as more and more schemes are completed output will improve.

7. The new programme is a revision of the original "Plan for Coal" and is designed to maintain and expand the investment begun under the first. It envisages a capital expenditure during the next ten years of approximately £1,000 millions, of which £600 millions is planned to be spent in the years 1956/60. In addition £100 millions will be needed for a substantial new housing programme, for developments in smokeless fuel production and other contingencies.

8. The results in terms of deep-mined output expected from this investment are as follows:-

Year	Million Tons
1955	210
1960	218
1965	230
1970	240

I have been at great pains to impress on the Coal Board the importance of not indulging in over-optimism. I believe there is a strong disposition now to be more realistic and I think these figures can be treated with reasonable confidence.

9. Assuming the realisation of the conversion plan to oil, and the maintenance of opencast production at least at its present level (12 million tons per year) then achievement of these deep-mined output forecasts should enable us to meet the inland demand for coal in the years indicated, to eliminate coal imports and to increase coal exports somewhat above their present level.

10. We certainly cannot hope to obtain outputs anything like these without investment on the scale indicated. If investment were now broken off, not only would it be impossible to start new major schemes, but many of those already in progress would have to be abandoned. Productive capacity would fall by as much as 40 million tons in ten years. Much of the investment of the past six years would be wasted before it had a chance to come to fruition. When new capacity has been provided, the effective use of it must depend on management and men. But capacity is the first requisite; and in our present circumstances we have no alternative but to make its provision possible. The Government must, of course, reserve the right to review the development programme from time to time in the light of circumstances.

Financing the Programme

11. During the period 1956-60 the Board expect to contribute £300 millions from internal resources towards capital expenditure which may reach £700 millions. They therefore estimate that borrowings of up to £400 millions will be required in that period. But they further estimate that after 1960 capital expenditure will be fully covered by depreciation provision from internal resources. Thus borrowings of only £400 millions would suffice to cover the whole period from now till 1970.

12. I have considered whether the Board ought to make a larger contribution from internal resources during the next five years and I have formed the opinion that it would be reasonable to expect them at least to overtake their existing deficit (about £40 millions), and create a small working balance (say £10 millions) and thus provide a further £50 millions. This would reduce the net borrowing requirements to £350 millions.

An extra contribution to capital of this kind can, however, only be found out of increases in the price of coal, and if my colleagues agree that it is desirable I would propose to take a first step in this direction in the coal price increase which will in any case be necessary later this year.

13. Further, there are good grounds for supporting the view (expressed by the Herbert Committee in relation to electricity) that nationalised industries ought to make more generous depreciation provision than they now do. Should the Government in due course decide to urge such a policy on the nationalised industries generally and to support them in the necessary price increases, I do not think there would be any great difficulty in applying it to the coal industry. In the meantime, my proposal to increase the Board's borrowing powers by £350 millions is in no way inconsistent with the subsequent adoption of a policy of increased depreciation provision - the effect would simply be that the Government would not need to make available to the Board the whole of the £350 millions which it would be empowered to provide under the Bill. Again, of course, the additional funds would require increases in the price of coal.

Conclusion

14. I invite my colleagues to agree that the Borrowing Powers Bill should increase by £350 millions the upper limit of the advances which, with the approval of the Treasury, I may make to the Board towards financing their revised development programme.

A. J.

Ministry of Fuel and Power, S.W.1.,

23rd March, 1956.