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13 January 2015

*Dear Secretary of State*

You are considering advice relating to public funding for Hatfield Colliery Partnership Ltd (HCPL).

The directors of Hatfield Colliery Partnership Ltd (HCPL) approached the Government in November 2014 to report that, due to a combination of unfavourable coal prices, exchange rates and production issues, the viability of the business was in doubt. Having exhausted all other options for securing investment, HCPL requested financial support from Government.

Government agreed to provide a short-term commercial loan of £8m, available for drawing down in tranches subject to performance, to support the company's managed closure plan. The first tranche (in the sum of £2 million) of this loan was remitted to HCPL on 31 December 2014. This short-term loan was designed to provide time for further consideration of the case for a longer term loan to allow HCPL to continue operating until 2016.

World coal prices have dropped over the Christmas period and since. Production has been below target due to technical issues in the machinery although it is now back to forecast levels. Taken together, these issues lead me to conclude that we are not going to get back to the pre-Christmas figures.

I am now clear that the only solution to refinancing the short term loan will be via closure aid. Officials have had an opening conversation with the Commission who are being constructive and helpful but can of course not guarantee that they will have given approval on the timescale we have suggested.

Whilst at the end of last week we had a marginally positive value for money case, coal prices dropped again over the weekend taking further head-room out of the plan and thus weakening the case. Looking forward over the remainder of the plan period I judge it unlikely that the value for money will improve significantly. In addition there is a non-negligible risk that it will deteriorate further. We have done the vfm analysis on HMT's standard green book terms and have not had

reliable data to allow us to factor in wider impacts on the community or the supply chain. Our analysis as a result of the value for money case has been on a downward trajectory since December with considerable risks remaining that it will fall further. It has not therefore been possible to make a sufficiently robust value for money case for providing the second tranche of funding, as required by my duties to Parliament as Accounting Officer.

The latest figures on the taxpayer exposure to a disorderly closure remain high at this stage in the project (we would expect them to come down as coal is mined and sold). At risk is estimated (£m)

Remediation costs	4.2
HMRC liability	3.2
VAT bad debt relief	1.0
Redundancy/PILON	4.1
<b>Total</b>	<b>12.5</b>

It is entirely proper for you to take a broader view. Matthew Hancock would like to request that you issue a direction, if needed, to provide further tranches of the previously agreed Government loan to Hatfield colliery. This request is made on the condition that total exposure for HMG remains within the agreed cap.

If that is your decision, I will proceed accordingly but I require your written instruction to do so. I will then ensure the necessary steps are taken to carry forward your instruction without delay. I will alert the Comptroller and Auditor General, who will inform the Public Accounts Committee (in line with the standard procedure for handling all directions), who may then conduct an enquiry.

*you are*

*Martin Donnelly*

**MARTIN DONNELLY**