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PRIME MINISTER

British Steel Corporation Finances  
(E(80) 102)

BACKGROUND

This memorandum by the Secretary of State for Industry is little more than a progress report. Mr. MacGregor will not be ready to present a fully fledged Corporate Plan until the end of the year, which points to substantive decisions by Ministers on BSC next January.

2. In the meantime Mr. MacGregor is establishing cost savings goals and reorganising the Corporation into product-based profit centres. Paragraph 7 of the paper summarises the main options for capacity which he is considering. The base case assumes continuation of the present strategy to provide for capacity for 15 million tonnes of liquid steel. Cases I and II would each provide for reduction to around  $12\frac{3}{4}$  million tonnes; and a loss in each case of about 15,000 jobs in addition to the 52,000 taking place this year. The main difference between these cases is that Case I provides for major mothballing at Scunthorpe and Case II at Llanwern. The 'lower case', which Mr. MacGregor does not appear to favour, is to reduce capacity to 7 or 8 million tonnes with job losses of 42,000.

1980-81

3. You will recall that the Secretary of State for Industry announced on 26th June that Sir Charles Villiers foresaw an additional cash requirement of about £400 million over and above the present External Financing Limit for 1980-81 of £450 million (and the agreed carry-over of £121 million from 1979-80). The limit was not amended then pending the arrival of Mr. MacGregor and his assessment of the situation. Mr. MacGregor believes that the additional requirement could well approach £600 million and advises that the radical changes he has in mind will not bite in time to take effect in the present year. The present cash limit will be reached next week. The Secretary of State for Industry therefore poses a choice between:-

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- (a) increasing the EFL by £600 million now;  
or  
(b) increasing it by £400 million now and by a further amount in January in the light of decisions on the Corporate Plan.

*Brit Steel -  
" Highland -  
" Shipbuilding -*

1981-82 and the Later Years

4. The figures in Annex 2 show that if Case I or II were adopted, and certain savings are assumed, the cash requirement for 1981-82 might be £700 million. However the Secretary of State for Industry recommends that it would be premature to set the EFL on the basis of present information and that the decision should be deferred until January. (The EFLs for the other nationalised industries will be set in November.)

5. The figures for the later years would also have to be finalised in January in the light of the Corporate Plan. But in the meantime, taking the figures in Annex 2, converting them to 1980 Survey prices, and deducting present Survey provision, gives the excess to which the Chief Secretary refers in the table in paragraph 12 of E(80) 104, of:

£ million 1980 Prices

1981-82	1982-83	1983-84
<u>325</u>	<u>275</u>	<u>175</u>

HANDLING

6. After the Secretary of State for Industry has introduced his paper the Chancellor and the Chief Secretary will wish to comment. The Secretaries of State for Wales and for Employment and Mr. Fletcher, who is representing the Secretary of State for Scotland, will wish to comment on the regional and employment implications.

7. In discussion you will wish to cover the following:-

- (a) The EFL for 1980-81

Given the uncertainties and the further work which BSC have in hand the Committee may well prefer to agree to an increase in the EFL now of £400 million with the balance to be determined in January.



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It will be necessary to announce this when the House reassembles. In view of the difficulties over drafting the 26th June statement, the Committee will no doubt wish the Secretary of State for Industry to clear the draft with them in good time.

(b) The EFL for 1981-82

I understand that Treasury Ministers are likely to agree that it makes little sense to set this EFL until firm policy decisions are taken in January.

(c) The Later Years and the Corporate Plan

Treasury and other Ministers are all likely to have a number of points which they will want the Secretary of State for Industry to urge Mr. MacGregor to take on board in his further work. If these are detailed, it might be sensible to invite them to put them in writing to the Secretary of State.

CONCLUSIONS

8. You will wish to record conclusions on:-

- (i) The amount of the increase in the EFL for 1980-81 and inviting the Secretary of State for Industry to clear his draft statement with members of the Committee in good time.
- (ii) Whether the setting of the 1981-82 EFL can be deferred until January.
- (iii) Points which the Committee wish to be covered in the further work on the Corporate Plan.



(Robert Armstrong)

15th September 1980