

Ref: A04304

PRIME MINISTERBritish Steel Corporation: Corporate Plan

## BACKGROUND

The Secretary of State for Industry's minute of 19 February to you covers a draft statement on BSC's Corporate Plan which he wishes to make on either Monday or Tuesday of next week. Members of the Committee also have copies of Mr Ibbs's letter of 16 February to the Secretary of State reporting on his enquiry into BSC's 1981-82 cash requirement; but only the Secretary of State and the Chancellor of the Exchequer have copies of Mr Ibbs's report to you today on the overlap between BSC operations and the private sector (in response to Mr Lankester's letter of 19 February).

2. At their discussion on 3 February the Committee agreed on the amounts to be written off in the Iron and Steel Bill from BSC's capital; they asked for a further explanation of the purposes for which the proposed increase of £150 million in the Corporation's External Financing Limit (EFL) for 1980-81, and the total of £730 million proposed for 1981-82, were required; and whether any of the £50 million wage increase in 1981 could be accommodated within a lower EFL for 1981-82; and they invited the Secretary of State to arrange for his Department, in consultation with the Treasury and the CPRS, to consider further the identification of performance aims and the evaluation of the wider social and economic costs of major closures, and to report. The Secretary of State was asked to revise his statement accordingly and also to make it more positive by bringing out the recent achievements of BSC - reductions in manpower and improvements in productivity - and to indicate that the present high levels of redundancy payments would not be maintained for more than another year (E(81) 5th Meeting, Item 1).

3. The Secretary of State for Industry gave the break-down of the EFLs for 1980-81 and 1981-82 in his minute to you of 6 February. Following this report Mr Ibbs led an enquiry team into BSC's 1981-82 cash requirement on which he reported in his letter of 16 February. Although the team had doubts about some of the component parts of the arithmetic, their conclusion was that, if Mr McGregor's plan is adopted, there is no practical



alternative to accepting the cash requirement for 1981-82; including the £50 million for the wage increase which has now been agreed with the workforce. They suggested, in paragraph 15 of their report, that Mr McGregor should be asked for assurances on the points listed; and the Secretary of State for Industry reports that these assurances have now been given. The team did not report on the proposed increase of £150 million to bring the 1980-81 EFL up to £1121 million.

4. The Phoenix I project was announced this afternoon, and so paragraph 9 of his draft can be amended accordingly.

5. At their meeting on 18 February, E(EA) agreed that no immediate change should be made in the Assisted Area Gradings of those areas likely to be affected by BSC closures, but that there should be a general review - not to be announced - of the case for re-drawing the boundaries of the Assisted Areas generally. They also agreed to some relatively limited measures in the areas affected but these are subject to further discussion by the Ministers concerned and to examination of how the money will be found.

6. The report on the identification of performance aims, and the evaluation of the wider social and economic costs of major closures, will be put forward later. It will be designed to prepare the way for the Committee's further discussions in July when Mr McGregor reports progress. In the meantime the Secretary of State's statement refers (paragraph 12) to the fact that Mr McGregor's commercial judgment may well lead BSC to seek further closures and redundancies; but he does not say that the Government would necessarily accept such a judgment.

7. In paragraph 9 of his covering minute the Secretary of State for Industry says that there are very strong arguments for making his statement on Monday or Tuesday because of serious problems with the Estimates timetable. This arises because the Spring Supplementary Estimate for 1980-81 has to provide the proposed extra £150 million for BSC. The present Parliamentary timetable provides for the Supplementary Estimates to be considered on 4 March and, by convention, they should be printed and presented two weeks









(vi) Can the Chancellor of the Exchequer and the Secretary of State for Energy say anything on the prospects for an early announcement of substantial electricity price reductions for steel producers and other high-load factor users? - paragraph 7 of the covering minute?

## CONCLUSIONS

10. You will wish to record conclusions on the 6 points listed above and on any further points arising in the discussion. It would be useful to establish when the Secretary of State for Industry and Mr Ibbs expect to report back on the identification of performance aims and the evaluation of wider social and economic costs of major closures.

A handwritten signature in black ink, appearing to read 'RJA', is positioned above the printed name.

ROBERT ARMSTRONG

20 February 1981