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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
Minister of State  
Department of Transport  
2 Marsham Street  
London SW1

22 December 1980

*Dear Norman,*

*Handwritten initials and scribbles.*

PORT OF LONDON AUTHORITY (PLA)

You wrote to Geoffrey Howe on <sup>19</sup> December confirming that the financial difficulties foreshadowed in your letter of <sup>16</sup> December had indeed materialised and that not only had the longer term prospect of returning the PLA to viability receded but the Port is unable to stay in business even until January 1981 without further Government assistance under the 1980 Act. Subject to the views of other members of E(EA) I agree that the most reasonable way of protecting the Government's interest would be, as you propose, to guarantee the minimum additional overdraft required by the PLA to stay in business until January when you will have received the Price Waterhouse Report and we will be able to reach a considered decision about the Port's future. I am also satisfied that it would be proper to give this assistance by way of guarantee despite the Port's insolvency since statutory powers exist to provide grants to the PLA in order to fulfil our commitments under the guarantee.

I am copying this letter to the Prime Minister, Members of E(EA) and to Sir Robert Armstrong.

*Handwritten signature of John Biffen.*

JOHN BIFFEN

22 DEC 1980



*Mr August*

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*Ind Pd*



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

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The Rt Hon Sir Geoffrey Howe MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

19 December 1980

*John Geoffrey*

*August*

PORT OF LONDON AUTHORITY

I sent John Biffen a copy of my letter of 16 December to Keith Joseph about the problem looming with the PLA, and said that the PLA bankers were still considering whether they were prepared to allow them to use their existing overdraft facility pending time for proper consideration by the Government of its attitude to the PLA. As you will see from the attached copy of a letter which I have just had from the Chairman, the bank have insisted that the current overdraft facility, which has in practice been limited to about £2m, should be cut for the next month to £1m, with no commitment beyond that. I had intended to put a paper to E(EA) about the PLA at the same time as I circulated papers about the general docks scene, and about the Mersey Docks and Harbour Company, and I am on the point of receiving a full report from Price Waterhouse about the PLA. But this decision by the National Westminster Bank makes it necessary for us to consider how we can hold the position until we have time for proper consideration.

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I saw the Chairman of the PLA a few minutes ago, and in the light of that discussion, I cannot be confident that if we refuse any kind of help the PLA Board will not decide, when they meet on Monday, either to resign, or to request the court to appoint a receiver. I judge that these are risks which we ought not to accept.

Under the terms of the Port of London (Financial Assistance) Act of this year, I have powers to make a further £5m available to the authority, either by way of grant or, as I told the House I intended to do, by means of Government guarantee for an overdraft facility. I have been reluctant to take either course, because once we make further assistance available, in the knowledge of the Board's probably insolvency, we shall be morally committed to provide whatever is necessary to enable them to meet all their creditors. Nevertheless, confronted as we now are by this new action by the Bank, I have myself concluded that we must give sufficient assistance to preserve the position until the second or third week in January, by when we should be able to come to a considered conclusion on our attitude to the PLA, and the other ports issues we discussed earlier in the week at E(EA).

If we are to give assistance, it seems to me that the least harmful step to take would be to guarantee an overdraft of approximately the size the Authority were seeking from the National Westminster Bank.

As I said in my letter of 16 December to Keith Joseph, this is a course that it would not in the ordinary way be proper

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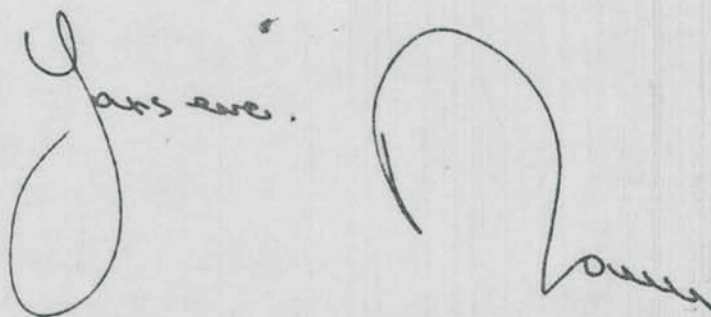
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to take when we cannot be satisfied as to the PLA's ability to repay the overdraft. But in the circumstances we now face I believe that a guarantee of this amount is justified to maintain the status quo until we can reach a considered decision in the light of all the facts. The alternative of making a grant would effectively close options now. Moreover, it might weaken the pressure on the PLA to take the urgent action needed.

We are checking the position urgently with the Authority, but it seems likely that the minimum required will be about £3m. We shall naturally insist that the overdraft is at no more than  $\frac{5}{8}\%$  above the syndicated base rate.

I shall of course need to make a statement by way of written answer to an arranged Parliamentary Question as soon as the House resumes.

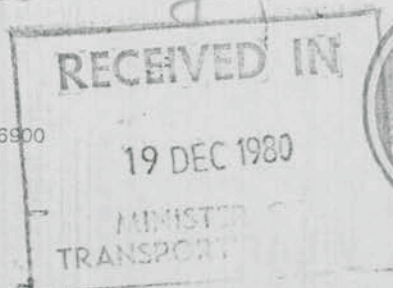
I am sending a copy of this letter to the Prime Minister, and the members of E(EA) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Fowler', with a large, stylized initial 'N'.

NORMAN FOWLER

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Telephone: 01-476 6900



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PORT OF LONDON AUTHORITY,  
LONDON DOCK HOUSE (SOUTH),  
1 THOMAS MORE STREET,  
LONDON E1 9AZ.

CHAIRMAN'S ROOM

PERSONAL AND CONFIDENTIAL

19th December 1980

*Dear Minister*

During our recent meeting and in correspondence, the last dated 25th November, we have set out the precarious financial situation of the PLA. The stark situation is now:-

- (a) We applied for a Treasury guarantee to a £5m. increase to our bank overdraft facility to date as from 15th December. This has not yet been agreed. We are informed that a decision will be made within one month from now.
- (b) We therefore sought a temporary overdraft facility from the bank of £2.7m. Your officials intervened with the bank in support of this. It would just have coped with the end-December cash requirement.
- (c) We learned late yesterday that the bank have agreed an overdraft facility of £500,000 for one month. As a consequence we cannot pay the Inland Revenue bill for £1.6m. to cover PAYE which is payable today. We are in discussion with Inland Revenue about this. In addition there will be £600,000 of other payments which will not be made. We have already delayed payments to the limits of commercial prudence.
- (d) Studies this morning reveal that by Monday evening, after the payment of cheques already issued and salaries and pensions, we will be in overdraft to approximately £450,000. We will then make no further payments out until revenue receipts enable us to do so. Christmas week and the following week may not produce significant revenue receipts. It is therefore inevitable that we shall not pay many creditors. The knowledge that we are not making payments will inevitably become public. In addition we are incurring liabilities which, prima facie, we may not be able to meet. Our Legal Adviser tells us that this leaves individual Members of the Board open to the possibility of a charge of "obtaining pecuniary advantage by deception". All this throws into question whether or not we should continue to trade.

There is a PLA Board meeting on Monday morning. There must be a possibility that the Board will conclude that it should cease trading.

*Yours sincerely,*  
Victor Paige.

V.G. PAIGE

Rt. Hon. Norman Fowler, MP,  
Minister of Transport,  
Department of Transport,  
2 Marsham Street,  
London, SW1P 3EB.

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*at the [unclear]*

*Ind Pol.*

The Rt. Hon Sir Keith Joseph MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1

16 December 1980

*Yes Keith.*

*R. [unclear]*

FINANCES OF THE PORT OF LONDON AUTHORITY

Before we meet in the E(EA) Committee on Wednesday to discuss the finances of the Mersey Docks and Harbour Company I thought that I should let you and other colleagues have an early warning of serious problems affecting the PLA which I shall need to discuss with the Committee in January.

You will recall that when we discussed the problems of the PLA at E(EA) on 19 November 1979 (E(EA) ~~(79)~~ 22nd meeting), we decided that the £70m of assistance we would provide (under the Port of London (Financial Assistance) Act 1980) should be made by way of grants of up to £35m, (plus an inflation factor of up to £5m), guarantees for commercial loans of £25m and a guarantee of an overdraft of up to £5m.

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The £5m overdraft guarantee was to be provided if and when the PLA showed that it was necessary. They recently applied for me to guarantee the overdraft. I had in anticipation of this set in train a review by Price Waterhouse of the Authority's finances and last week my officials had a sight of their preliminary draft conclusions. They have so far advised that though the PLA might be able to survive 1981 with the aid of this £5m (provided they receive at least £15m from the transfer of surplus docklands to the Urban Development Corporation) they would be unable to continue thereafter without further assistance.

This change in the PLA's situation results in the main from the fact that economic circumstances have changed radically since it was decided that Government assistance should be limited to £70m. The PLA have taken vigorous action this year, including the closure of the India/Millwall Docks and have managed to sever substantially more registered dock workers and staff than they had originally planned but, even so, these reductions have not compensated for the disastrous drop in their traffic. They now need to get rid of still more people and will probably need to close even more of their facilities. This will certainly involve the need for further funds for severance which they do not have.

They will in any case need the injection of the further £5m authorised by the Act early in the new year if they are to continue trading and I can see no way in which I can refuse to give them the balance of the £70m aid given the terms

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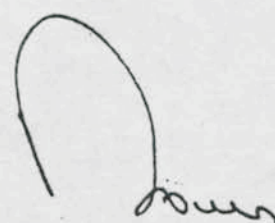
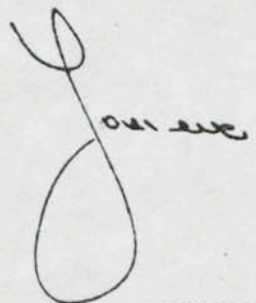
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of my statement last year. But, in the light of the accountants' views so far, I think I should have to make this available by way of grant, rather than by overdraft guarantee, because it would clearly be improper to guarantee the overdraft or lend money myself when there seems to be no reasonable prospect of repayment. I would have adequate statutory authority under the existing Act for providing the £5m by way of grant.

I would prefer not to have to take this step until I have received the Price Waterhouse report (which I expect before Christmas) and have had time to study it and put considered proposals to my colleagues. The PLA's bankers are still considering whether they are prepared to allow them to use their existing overdraft facility (which, barring accidents, should be sufficient to see them through for the first few weeks of the new year) pending time for proper consideration by the Government of its attitude to the PLA. My officials have explored the position and have told them that there is no reasonable chance of a decision before January.

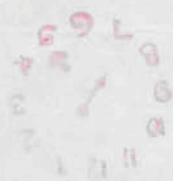
As you will see there are some points in common between the problems of the PLA and the MDHC, in that both of them have been seriously affected by traffic losses and they both have similar problems of surplus manpower. It was for this reason that I thought I should give you and other colleagues advance notice of the PLA situation so that it could be borne in mind during discussion of the problems of the Mersey Docks.

I am sending copies of this letter to the other members of E(EA), to the Prime Minister and to Sir Robert Armstrong.



NORMAN FOWLER

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16 DEC 1980