



Prime Minister ⁽²⁾

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

Then why any increase in pay? We are appalling.

*cannot link after ~~the~~ increase in pay. We cannot pay what promised in 1/9
to every company which could not afford
i.e. extra pay by redundancies
by pension.*

Dear Chancellor,

1 September 1982

BRITISH AIRWAYS' FINANCIAL POSITION

I am writing to alert you to the position expected to be shown in BA's forthcoming annual report and accounts for 1981/82 and to seek your agreement on one aspect.

As shown in his attached letter, Sir John King intends to publish these if possible on 8 October. (They are of course strictly confidential at present.) The accounts are likely to show a break-even on their operating position (an improvement after last year's loss) before interest payments of over £200m. In addition, however, BA intend to include about £500m of "extraordinary items" so as to show a total loss of about £600m.

How much?

These "extraordinary items" include provision for accelerated depreciation and redundancies and are designed in part to improve BA's profits for later years. However, the inclusion of these items makes BA's loss for 1981/82 even higher than has so far been forecast in the Press and will therefore cause a considerable stir. These items also have implications for the size of the cash injection we may need to give BA as part of any capital reconstruction we decide upon.

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From the Secretary of State

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BA in addition wish to refer in the published accounts to substantial past unfunded liabilities for their pension scheme (of about £300m), which could also give rise to Press comment and, by obliging the Government to fund or guarantee these liabilities, add to the public expenditure cost of privatisation.

In principle, of course, the accounts are a matter for the BA Board and their auditors. But because of the implications of these matters for Government expenditure we cannot disclaim interest. My officials and yours are accordingly in touch with BA on the treatment of these "extraordinary items" with the aim of securing agreement on their presentation.

As a result of BA's inclusion of these items, however, the accounts also show an insolvent capital account, with negative reserves exceeding public dividend capital by about £300m. In addition BA are likely to have difficulty in meeting their redundancy payments under this year's new scheme within the EFL for 1982/83.

As a result, and as Sir John King reports in his letter, BA's auditors require an assurance by Government about future funding in order to give a clean audit certificate. *Then the redundancy payments may be too large.*

Sir John King suggests two alternative forms of assurance. I do not think his first alternative - an undertaking over capital reconstruction - is acceptable, as we have as yet taken no decision about this, and it is likely in any case to require legislation. Nonetheless, I accept the need for some public assurance, in view of the position to be revealed in BA's balance sheet, and I hope you will agree to me writing to Sir John King on the lines of his second suggestion. The exact form of words I would suggest is:-

"I write to assure you that the Government will enable BA to meet its obligations as they fall due, pending consideration of the capital reconstruction that you are seeking from the Government".

Agreed

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From the Secretary of State

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(I understand that wording somewhat on these lines was recently agreed for British Shipbuilders.) I should be glad of your urgent agreement to this in view of the need to finalise BA's already overdue accounts as quickly as possible.

I do not, of course, propose to make any substantive reply to Sir John King's request for a capital reconstruction, before this has been considered in E(NI) later in the autumn.

All this is a dreadful state of affairs. The situation has built up over a period of years due to appalling management. One can argue that the moment of truth has arrived and we must bite on the bullet. If this were a private sector company the right course would be to appoint a receiver and clear the matter up that way. But that course is probably not open to us. But it does not follow that we have to swallow everything the Board of British Airways or their Auditors choose to dish up. In particular, I am very dubious whether the Government have any obligation, moral or otherwise, to bail out the BA pension fund.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours sincerely

John Whitehead

for

LORD COCKFIELD

[Approved by the Secretary of State
and signed in his absence.]

CONFIDENTIAL

mrs (or)



NBPM

From the Secretary of State

CONFIDENTIAL

Miss Jill Rutter
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

3 September 1982

Dear Jill

BRITISH AIRWAYS' FINANCIAL POSITION

in box
I much regret there was an unfortunate typing error in my Secretary of State's letter of 1 September to the Chancellor of the Exchequer on this subject. The figure of £200 million for interest payments shown in the fourth line of the second paragraph should have read £100 million, and I should be grateful if copies of the letter could be altered accordingly.

I am sending copies of this letter to Willie Rickett (Number 10) and Richard Hatfield (Cabinet Office).

Yours sincerely

John Whitlock

JOHN WHITLOCK
Private Secretary

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10 DOWNING STREET

JR
cc: Mr. Vercher
Aerospace

From the Private Secretary

6 September 1982

Dear John,

BRITISH AIRWAYS' FINANCIAL POSITION

The Prime Minister has seen a copy of your Secretary of State's letter of 1 September to the Chancellor of the Exchequer about British Airways' forthcoming annual report and accounts for 1981/82.

26 Aug.
 SS

The Prime Minister is most concerned about the situation revealed in Sir John King's letter of ~~8~~ October. She has commented that we simply cannot agree to every request from British Airways - requests which could certainly not be afforded were British Airways a private sector company. In the light of British Airways' situation, the Prime Minister does not believe that any pay increase for British Airways' staff can be justified. Mrs. Thatcher would, further, be grateful for information about the size of the redundancy payments which are being made to BA staff, and their total financial effect on the Corporation. The Prime Minister would also be grateful for a note on the impact of BA's pension liabilities on their financial position.

I am sending a copy of this letter to Peter Jenkins (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholes

John Whitlock, Esq.,
Department of Trade.

SS

26A
 SECRETARY
 FOR TRADE'S OFFICE
**British
 airways**

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 Heathrow Airport (London)
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 Telephone: 01-759 5511
 Telegrams: Britishair

26 August 1982

Private and Confidential

The Rt. Hon. Lord Cockfield,
 Secretary of State for Trade,
 1 Victoria Street,
 London, SW1H OET

Dear Secretary of State,

Annual Accounts 1981/82

There is one particular aspect of our 1981/82 Accounts that I need to bring to your attention.

It is clear to me from the reports I have had of our discussions with Messrs. Ernst and Whinney, that if we are to be given a clean audit certificate by them, I must be able to say in my Statement that the Government is prepared to undertake a reconstruction of our capital and debt structure in the near future. Alternatively, if this cannot be said at this stage, I need your assurance that the Government will enable British Airways to meet its obligations as they fall due, pending the Government's consideration of such a reconstruction.

I should perhaps add that a response from you along the lines indicated will be necessary not only from the audit point of view, but also in relation to the provisions of a number of our financing agreements.

I would be grateful for an early and sympathetic response to this letter, since I am anxious that the Accounts should be finalised at an early date, and published before 8 October if at all possible.

I would also take this opportunity of asking, formally, for the Government to reconstruct the capital and debt structure of British Airways. Details of our present views are being sent by Dunlop to Clarke separately today.

Yours faithfully,

Gordon Dunlop.

Dictated by Sir John King
 and signed in his absence

SEP 1982

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