



PRIME MINISTER

INMOS

to the Deputy

(I assume that any loss additional liability - has to be met - from the NBSS budget)

Prime Minister

Sir Keith's report back on the INMOS/NEB monitoring arrangements. I think they are probably as good as we can achieve. In particular,

In your summing up of our discussion on INMOS at E Committee on 28 July, you invited me, if possible, to limit the Government's total liability to the £50 million equity plus regional assistance. I would like to report the arrangements I have made with Sir Arthur Knight.

there is no avoiding the NEB standing behind the company's debts in case

2 One of the difficulties is that it is impossible to forecast a precise ceiling for INMOS' liabilities. In addition to the £50m equity which the NEB now has approval to draw down, the company has consistently estimated a requirement of peak long term borrowing of £35 million. This is now net of the expected receipts from regional assistance. £17m of the borrowing will be in the form of mortgage or leasing finance for buildings and equipment which would revert to the mortgagee or lessee in the event of INMOS' liquidation. To this extent the NEB's potential liability for the company's external borrowing is limited to £18-19 million. There will at any time be additional trading liabilities in the form of overdraft facilities, trading commitments etc. No precise limit could be set on these but I am satisfied that the Board will keep the company's working capital position firmly under review as part of its monitoring procedure.

↑ failure. Contact? 12/16

3 Against this background and our concern about limiting the Government liability Sir Arthur Knight has agreed to monitor closely

/the ...



the performance of INMOS against specified targets. Sir Arthur has assured me that the Board will not allow the company to draw down equity unless they are satisfied with the company's progress. Officials in this Department will be able to keep a regular check on this through new quarterly monitoring procedures agreed with the NEB. In this way I am satisfied that adequate control of the company can be maintained and that the danger of its assuming liabilities which the Government might have to shoulder can be kept to the minimum.

4 You also indicated in your summing up at E Committee that the increase in the NEB's equity shareholding in INMOS should not be held to imply that the Government would always automatically stand behind any liabilities which INMOS might incur. The obligations of the NEB in relation to its subsidiaries are set out in their guidelines:-

"In deciding on their practice in relation to the debts of their subsidiaries, the Board shall have regard to the practice of companies in the private sector in relation to the debts of their subsidiaries".

Whilst this avoids any firm commitment, the NEB has let it be known that they will meet all proved debts of a subsidiary in the event of liquidation, as indeed they are doing in the case of Herberts. This conforms with best City practice. It has also been made clear that the Government stands behind the NEB without qualification or reserve. This was confirmed to the PAC by the Accounting Officer for this Department before we took office. Many of the companies which were established at that time and still form part

/of ...



of the NEB's portfolio could not have been established on any other basis. I think we must recognise that, at least in relation to these companies - and this includes INMOS - it would not be possible for us to go back on this well-established practice.

5 Given therefore that we must accept the ultimate risk for the bulk of the venture, I am satisfied that the arrangements I have instituted will allow me to keep a close watch on the way that the risks associated with INMOS develop. I will give colleagues the earliest possible warning should there be any prospect of the Government's exposure being significantly increased.

6 I am sending copies of this minute to members of E Committee and Sir Robert Armstrong.

KJ

K J

8 October 1980

Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1



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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 October 1980

Dear Mr.

INMOS

The Prime Minister has considered your Secretary of State's minute of 8 October on the above subject.

She assumes that any additional liability which the NEB might have to meet if INMOS were to go into liquidation would be covered within the NEB's existing budget. Subject to this point, she is content with the arrangements which Sir Keith has made with the NEB.

I am sending copies of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

[Handwritten signature]

T. L.

Ian Ellison, Esq.,
Department of Industry.

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PS/Secretary of State for Industry

31 October 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

MS.

Ann. Min. 1

You have questioned the
NEB's position if Inmos were
to fail. X below explains
that the costs of meeting Inmos's
liabilities would necessarily mean
extra funding because there is
no NEB provision beyond 1982/83. ~~Should~~

Dear Tim

INMOS

In your letter to me of 20 October you said that the Prime Minister had asked whether any additional liability which the NEB would have to meet if Inmos were to go into liquidation could be covered within the NEB's existing budget. Subject to that point, the Prime Minister would be content with the arrangements with the NEB which my Secretary of State described in his minute to her of 8 October.

2 Whilst it is certainly the normal practice for the NEB to meet the costs of the failure of any of its companies out of its own provisions, this is not always the case, nor is it always sensible to insist on this. For example, we had to take the decision on the liquidation of Alfred Herbert earlier this year, despite the fact that, at the time, it did not appear that the costs could be met out of NEB's estimate provision for this year. If we had insisted on the NEB meeting the costs they would have been forced to maintain Herberts, since this would have involved less cost this year though higher costs thereafter. In the event the delay on Inmos has resulted in savings this year which will cover the Herbert costs so there will be no overspend.

3 As far as what might happen were Inmos to fail, the Prime Minister will recall that the financial provision agreed for the NEB following the review of its role which was undertaken after the election was over £140 million over a three year period. This was to cover expenditure within the NEB's high technology and regional roles up to the end of 1982/3, and colleagues did not take any decision about the NEB going beyond that. The second tranche of £25 million for Inmos approved at E Committee on 28 July falls within this limit. But if Inmos were to fail it is most unlikely that any additional liabilities would arise until after 1982/3. As the NEB's budget stands at present, therefore, the costs of meeting any such liability would require additional funding. My Secretary of State will be considering at the end of the year what provision might be included for the NEB for the period beyond 1982/3. He will be bringing this before colleagues in the normal way at the beginning of next year, when we have examined the NEB corporate plan.

say that the commitment I don't think we can take this any further. JL 3/11

X

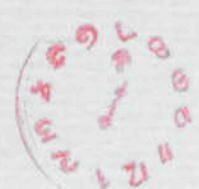


4 I am sending copies of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

Yours ever
Catherine Bell
CATHERINE BELL
Private Secretary



GOVERNMENT



31 OCT 1980



JS

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10 DOWNING STREET

From the Private Secretary

4 November 1980

INMOS

The Prime Minister has read your letter to me of 31 October, and is content with your explanation on the question of the additional liability which the NEB might have to meet if INMOS were to go into liquidation.

I am sending copies of this letter to Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

J. P. LANKESTER

Mrs. Catherine Bell,
Department of Industry.

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