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NBPM
AT 29/6

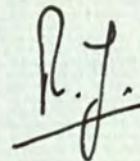
MR TURNBULL

29 June 1984

c Mr Redwood

BSC'S BORROWINGS

1. This minute is for your use only, and refers to Norman Lamont's letter of 19 June, which was copied to you, rather than to the Prime Minister.
2. Raising BSC's borrowing ceiling by £½ billion should surely be more than the minor administrative matter which Mr Lamont suggests? Of course there is logic in allowing the borrowing ceiling to accommodate the EFL set for 1984/85. There may be merit in applying a bit of margin as well. But this is a long way from underwriting the cost of the miners' strike to BSC and giving them plenty of headroom for the next couple of years as well. If we put aside the fact that BSC is very bust indeed (assets of £2 billion, borrowings of nearly £3 billion and continuing cash outflow of £300-400 million per annum) the fact remains that a commercial banker would use a borrowing limit to enforce better behaviour on the part of his client. Why does not Government do so?
3. The right way of determining BSC's future financing is to get the surrogate Corporate Plan before E(NI). Although Norman Tebbit has mentioned this document to MISC 101, and Norman Lamont refers to it in his letter, DTI are being tight about processing it, on grounds of sensitivity while the coal dispute is going on. But tightness must not become an excuse for tardiness. In any event, surely Ministers should know while the coal dispute is on what BSC are thinking?
4. If you are minded to raise this with the Prime Minister, we would suggest an increase in the borrowing ceiling of no more than £250 million, and a call for an early E(NI) or meeting of Ministers to debate BSC's document of 11 June.



ROBERT YOUNG

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From the Minister of State for Industry

Norman Lamont MP

Rt Hon Peter Rees QC MP
Chief Secretary
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cc PS/Prime Minister
PS/Peter Walker and
PS/Sir R. Armstrong.

- in view of NCB
deficit grant limit

19 June 1984

De P.H.

BSC'S STATUTORY BORROWING LIMIT

As your officials are aware, we have reached the time when BSC need an increase in their borrowing limit. The current limit of £3,000 million was set at the end of 1982 by means of the Iron and Steel Act 1982 and the British Steel Corporation (Reduction of Capital) Order 1982. The limit may be varied by order, subject to affirmative resolution in the House of Commons, within an overall ceiling of £4,500 million. When the last order was debated it was envisaged that the limit then being set might last for about 18 months, so that a fresh order would be needed in the 1984/85 financial year. We are now fulfilling this prediction.

At the end of March 1984, BSC's borrowings against the statutory limit were £2,870 million. Thus they started 1984/85 with headroom under the limit of £130 million. Until recently this had been expected to last until early September, but the cost to BSC of the miners' strike (estimated at £40 million to the end of May and now running at some £5 million per week) means that BSC now expect to be close to the limit by the end of July. In any event it is necessary to seek Parliamentary authority to increase the limit before the summer recess. A debate in mid/late July, after the publication of BSC's accounts for 1983/84 (which will show a marked improvement over previous years), with the increase to take effect from 1 August, seems the best time to aim for.

I propose that the limit should be increased by £500 million to £3,500 million. As mentioned above BSC had £130 million headroom within the limit at the start of 1984/85. Their EFL for 1984/85 is £275 million. If they stay within this figure they would then use up £140 million of the headroom given by the new order in 1984/85, leaving £355 million available for 1985/86 and later years. We

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have recently received BSC's own projections for these years in the context of their strategy review. These envisage a cash outflow of between £271 million and £315 million in 1985/86 depending on the strategy adopted. More substantial differences between the cash costs of the different options do not emerge until 1986/87.

While, of course, we have yet to consider collectively our approach to the strategic options and look in detail at the figures, I believe we can present an increase of £500 million as necessary to cover the remainder of this year's EFL, and to meet the estimated cash requirement in 1985/86, leaving £50 million or so to cover the beginning of 1986/87. Thus, on the basis of these figures, a new order would be needed in about two calendar years' time, which is the normal interval expected between orders of this sort.

However, we also need to bear in mind that the headroom given by a £500 million order may in practice run out more quickly than envisaged above. First, it may be that the costs of the miners' strike to BSC cannot be contained within EFL. Also, there are a number of proposals afoot which could lead to additional funding of BSC counting towards the statutory limit. These include Phoenix II and the buying out of the onerous Firelake obligation. For these reasons BSC would prefer an increase in the statutory limit of something more like £750 million. I think this is too much, and would be difficult to explain to Parliament. However, without wishing to prejudge proper consideration of these proposals, I think that if we go for a sum of less than £500 million now we run the risk of needing a further increase quite soon afterwards at a time which may not be appropriate for further debate on future financing needs.

I am therefore seeking your agreement to an increase to the statutory limit of £500 million, which can be explained with reference to normal cash requirements, without prejudging strategic decisions, plus the known effects of the miners' strike.

I am sending a copy of this letter to John Wakeham.

Yours
Norman

NORMAN LAMONT