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Ref. A01503

PRIME MINISTER

British Steel Corporation

It appears that the non-executive members of the Board of the British Steel Corporation are anxious about the propriety of the BSC taking on financial commitments which it may not be able to meet. This issue has not arisen this month, since the members concerned were persuaded that the commitments which the Corporation were likely to undertake in February would be covered by funds arising. The position may be the same in March, but either then or in April Sir Charles Villiers will need to be given an assurance that the Government stands by the Corporation's commitments. It is generally accepted that the Government has at present no choice but to finance the Corporation's obligations, even if the cash limit were to be breached, and that an assurance in suitable terms should be given.

2. Mr. Gross has prepared a draft letter for Sir Peter Carey, as accounting officer in the Department of Industry, to send to Sir Charles Villiers.

I attach the draft herewith.

3. My reservation relates to paragraph 5 of the draft, in which is stated that the Secretary of State's intention is that the Corporation should conduct its business within the financial constraints that he has set for it by way of external finance provision and financial target for 1980-81, as set out in his letter of 20th December. The effect of that would be to reiterate both the external financing limit of £450 million and the prescript that that money should not be available to finance operating losses. It seems to me that, as the situation is developing, it may be that the Government will wish to be free to consider the possibility of keeping the external financing limit at £450 million, but allowing the Corporation to postpone some redundancies and use the money instead for operating costs (a marginal improvement in the pay offer). In that

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event, the reiteration of the requirements in the Secretary of State's letter of 20th December could be something of an embarrassment.

4. I have suggested that the risk of embarrassment could be avoided without signalling any change of policy or intention, if the paragraph was generalised, so as to read:

"That said, the Corporation is of course expected to conduct its business within the financial constraints set for it by the Government by way of external finance provision and financial targets".

5. The Department of Industry think that they could not revise the draft on these lines without going back to their Secretary of State, and are reluctant to do that. I am inclined to urge them to do so, for the reasons which I have indicated in this minute; but I should be glad to know whether you agree that I should press this point.

ROBERT ARMSTRONG

(Robert Armstrong)

22nd February, 1980

Tim

Dick Seaman - Director of Information in Dept of employment telephoned you at Jim Inou's request

Jim Inou accepts that the speculative stories about Villiers resulted from a lunch he had yesterday with labour industrial correspondents at their invitation. He apologises for this.

Apparently when he was questioned about steel to Villiers he did say that obviously the Government wanted the best successor to Villiers and that a successor might not necessarily be from the UK.

Employment did not receive any enquiries about the story last night and assume the reference to "Whitehall sources" means industry.

TD

It is untrue that Jim Purr hunted at
an early retirement for Vilkers.

Terza.

19.2.80