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Ref. A01276

PRIME MINISTER

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British Steel Corporation: Finances

(MISC 34(80) 1)

BACKGROUND

At your meeting on Monday you commissioned a note on the options for management changes. The paper circulated as MISC 34(80) 1 is the result. It was put together last night by a group of Ministers and officials under the chairmanship of Sir Keith Joseph.

2. The paper lists the pros and cons of four options, but makes no definite recommendation. The options are:-

- (a) Leave the Board as it is without any changes in membership.
- (b) Seek the resignations of the three senior executives: the Chairman, Chief Executive and Managing Director (Finance).
- (c) Seek the resignation of the whole Board and replace it by a much smaller Board.
- (d) Seek the resignation of the three senior executives, but establish a new "Reconstruction Executive" consisting of a small number of people from the Board (including the new Chairman) and from outside.

HANDLING

3. The main issues for discussion are:-

- ✓ (i) Options: Is it possible to take firm decisions (at least between (b), (c) and (d)) about the preferred option, before a new Chairman has been lined up and his own views sought on the Board structure? (Sir Keith Joseph could be asked to report progress on obtaining a replacement Chairman). Are Ministers prepared to reach provisional views on their preferred option, to be tested against the views of the Chairman-designate? If so, which option or options do they prefer? And can any of the options be eliminated now?

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- ✓ (ii) Personalities: What choices exist for new appointments and when might they become available? If, as seems possible, neither of Sir Keith Joseph's two favoured candidates accepts appointment, are there any circumstances in which it might be preferable to retain Sir Charles Villiers? Or would it be presentationally impossible to retain him once news of the financial position became public?
- ✓ (iii) Sacking: If the three top men - or any of them - prove reluctant to go, how should they be removed? The Ministerial Group suggests requests to resign with compensation; but the Department of Industry have been seeking advice and may have more information to give.
- (iv) Timing: Ministers would no doubt prefer to leave reconstruction of the Board until the strike is over. But what happens if the financial position leaks out after the Board meeting on Thursday but before the negotiations have produced a settlement? Would the Government's hand be forced - assuming (and it is a big assumption) that new Board members had been lined up? Does thought need to be given now to a holding statement?
- (v) Select Committee hearing: Sir Keith Joseph was going to seek Sir Donald Kaberry's agreement to a postponement of the original date of 13th February. Has he succeeded?
- (vi) BSC Finances: See Annex A. The figures on the first page of the Annex show that the extra loss this financial year will depend on the length of the strike which is the main cause of deterioration. The figures on the second page show that for next year the £330 million deterioration (from £45 million profit to £285 million loss) is largely due to factors other than the strike. Even adding the extra wage costs to the strike effects only explains half the deterioration (£160 million out of £330 million). The auditors think the loss next year could be a still bigger one than the figures shown. No decisions are needed now; but, when the figures break, attention is bound to be concentrated on the continued viability of the £450 million limit on

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External Finance. You will want Sir Keith Joseph's view on the practicability of recovering the extra lost ground in 1980-81, as regards both the £450 million limit and the parallel obligation not to make an operating loss. What reply will the Government give to questions on these limits?

- (vii) The Government's commitment to stand behind BSC's debts: Some members of the BSC Board are worried lest they should be trading in circumstances which would be illegal in a private company. The question turns on whether the Government, despite its statements on cash limits, regards itself as bound in the last resort to pick up the tab. In practice the Government has no choice (it is morally bound by Section 332 of the Companies Act and previous Governments have acknowledged the fact). But something may need to be said at the appropriate moment. Sir Keith Joseph might be asked to consider what form a reassurance to creditors might take.
- (viii) Reconstruction of BSC: The Treasury were asked last night to seek further information on the feasibility and implications of making BSC subject to provisions equivalent to bankruptcy in a private company. Is there anything to report yet?
- (ix) Wage negotiations: What is the latest view of the prospects for a settlement?
- (x) Proposed message to BSC Board: See paragraph 17 and Annex B. Considerable doubt was expressed last night about the wisdom of sending such a message, and the issue was left for discussion at your meeting. The main argument against is that the message could be misunderstood as insisting on a hard line and endanger the prospects of a settlement.

CONCLUSIONS

4. These will depend on discussion, but you may care to use the points above as a check list.



(Robert Armstrong)

30th January, 1980