

PRIME MINISTER

BSC: THINKING THE UNTHINKABLE

*Original returned
to Policy Unit.*

1. OUR PREDICTION

1.1 We believe that, in July, McGregor will start asking for more money; and the Government, unprepared and boxed in, will have to agree.

1.2 Compare last year's outcome and predictions, which repeat a familiar pattern:

	<u>Predictions</u>	<u>Outcome</u>
1979/80	£54m	-£545m
1980/81	Break-even	-£480m

2. WHAT HAPPENS IN JULY?

2.1 There are three possible outcomes in July:

- (1) BSC meets its targets and McGregor continues with the Plan. This outcome is of course possible, though unlikely.
- (2) BSC misses its targets and McGregor abandons the Plan. This outcome is, in our view, unlikely for two reasons. First, we doubt if the Cabinet would let him do it. Second, clear criteria to trigger such a decision have not been established. The vague call for a progress report in July is an invitation to move the goalposts again. All the excuses for delay instead of decision are already there: the financial target is for 1981/2 as a whole; the 3-year Corporate Plan will not be ready until the autumn; monitoring is already being described as "very difficult".
- (3) BSC misses its targets, but McGregor favours carrying on - with more Government money. This outcome is the odds-on favourite. The pound is already higher, against the Deutschmark, than BSC's plans assume.

2.2 We are all set for a BSC re-run of the BL saga. The question is, how do we get Cabinet to a point where it could accept McGregor's abandonment of the Plan; or insist on it if McGregor comes back for more money? Do we want to be at least in a position to take such a tough decision? If we do, tomorrow's E is the starting point.

3. PREVENTING A RE-RUN OF BL REQUIRES ACTION NOW

3.1 Action must start now to provide Cabinet with a real decision point - rather than a phoney review - in July.

3.2 E needs to make three decisions tomorrow:

(1) To require clear decision-making criteria for the July review. These should be agreed in February.

(2) To call for a proper cost/benefit analysis of BSC run-down, rather than the PSBR-based comparison which is all that is now available. We have discussed this with Alan Walters and believe he should be involved, with officials. He has suggested one or two outside experts who could help with this analysis. It should be ready during March.

(3) To commission opinion research during April/May to gauge the political reaction to BSC run-down. This would avoid making political judgments, as we had to do on BL, on the basis of meaningless anecdotes.

4. DISCUSSION AT E

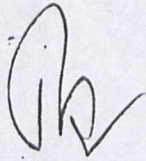
4.1 E members couldnot object to this work being put in hand if the McGregor Plan is to be backed.

4.2 I don't think anyone could resist the attempt to devise decision-making criteria, unless he is arguing that there is no practical limit to the level of losses by BSC which the Government will tolerate.

4.3 Some colleagues may argue that it would be wiser to keep things fairly vague, to "leave the options open" (even though nothing would be published). But this is precisely why Governments must stop playing at being main board members (but always prevented by political considerations from taking the tough and necessary decisions which boards have to take) and wherever possible to get loss-making nationalised industries into the private sector, where funding depends on performance rather than "need". The decision to do it needs only to be made once. The decisions not to do it, but to keep on paying up, can be made - and so far have been made - indefinitely.

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Copies of this minute go to Geoffrey Howe, Keith Joseph and Robin Ibbs, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'JH' or similar initials, written in a cursive style.

JOHN HOSKYNS

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