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Supporting on BLP

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cc NO

AT 17/2

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

Norman Lamont MP

The Rt Hon Lord Cockfield
Chancellor of the Duchy of
Lancaster
Privy Council Office
Whitehall
LONDON
SW1

17 February 1984

Dear Arthur

SCOTT LITHGOW (SL) AND TRAFALGAR HOUSE (TH)

Your minute to the Prime Minister of 13 February makes the entirely fair point that my letter of 10 February, taken on its own, provides an insufficient factual base on which to judge the TH proposition.

In fact detailed background papers were circulated by my officials to their opposite numbers in relevant Departments. I hope that this letter, and its attachments, will put you fully in the picture.

The basis on which BS have negotiated the deal is that, at worst, it should leave them no worse off than the alternative of accepting cancellation of the Britoil contract and in due course closure of the yard. The deal they have meets this criterion.

At Annex A is the detailed estimate BS have made of the relative cash costs for the whole yard of the alternatives of accepting the TH deal or accepting closure. Part A shows the present balance sheet deficit after writing off loans to SL by BS. It shows liabilities of £41m which have to be discharged either to conclude the TH deal, or on closure. Part B assumes the current fixed asset value to be zero. Part C shows the various other costs incurred by each route. Part D shows the future income from the deal, mainly falling post 1983/4. The bottom line is the net cash cost of either route for the whole yard from end-December 1983. Officials from this Department and the Treasury have explored these figures with BS and are satisfied that they are reasonable. If anything the closure costs may be understated.

On your specific points, the £12m purchase price is effectively a working capital loan needed by TH. BS will bring the asset value up to £12m, TH will then buy it for £12m, to be paid over 4 years with interest. The breakdown of the current balance sheet position is given in note 4 of the Annex.

The tax loss value to TH is much smaller than it looks. Past losses at SL are not available for group relief, and can only be set against future SL profits. The important tax loss is that sustained after completion of the deal. This will be about £50m, the value of which to TH we and the Treasury estimate to be about £10m. From our point of view this PSBR cost has to be set against the PSBR costs of the alternative of closing the yard, (ie the extra redundancy, SRPS and unemployment benefit and lost tax revenue associated with the 1250 workers TH will keep on). These we estimate lie between £24m and £38m depending on assumptions about the rate of reabsorption into employment of those made redundant.

You are of course absolutely right that this looks a good deal for TH. But it is by no means risk-free, as underlying the figuring is the key assumption that TH can build the Britoil rig on time and complete the other work in the yard at no greater cost than BS would have incurred by closing it down. For its part BS ensures that its risk is limited to that cost, a valuable condition.

Finally I naturally agree that we must try to get the best deal available. But we must equally ensure that our pursuit of the bird in the bush does not leave us emptyhanded. That is why I am keen that we strike a careful balance between encouraging BS to pursue the deal it has got and leaving the door ajar to the latecomers.

Copies go to the Prime Minister, Michael Heseltine, Peter Walker, George Younger, Peter Rees and Sir Robert Armstrong.

Yours ever

Norman

NORMAN LAMONT

Annex A

	Trafalgar House	Closure
Position as at P.9 Accounts		
A — Excess of Current Liabilities ~~and~~ over Current Assets	90,192	90,192
Add Group Relief receivable included as a current asset but to be offset against BS loan balances	11,063	11,063
	101,255	101,255
Less BS Current Account	(60,569)	(60,569)
	40,686	40,686
B — Fixed Assets	Nil	Nil
C — Adjustments:		
Redundancies	3,000	6,750
Contingency (current Assets)	1,000	1,000
Capital Duty	300	-
Lease costs:		
3 years charge	1,000	-
Termination charge	-	2,400
Current contracts:		
SOV (753/700)	-	(2,000)
BP Rig (2001)	-	3,000
Britoil	3,100	3,100
Loan re debtors	7,400	-
Capital commitments	300	300
Regional Development Grants repayable	-	1,000
Under-recovery of overheads	-	2,000
Reorganisation and retraining	7,000	-
Funding of purchase price	12,000	-
c/fwd	75,786	57,336

	b/fwd	75,786	57,336
Future income			
D	Repayment of purchase price	(12,000)	-
	Repayment of loan for debtors	(7,400)	-
	Sale of Fixed Assets	(8,000)	(4,000)
		£48m	£53m

Note:

(1) In a closure situation, might achieve better results from settling claims, but against this could be very considerably worse off if, on negotiating settlement of cancelled Britoil contract, we were forced to compromise on any recovery of OSE's.

(2) Cancellation of BP Rig 2001 much more likely in a closure situation.

(3) SRPS costs excluded from both calculations.

(4)

Stocks and work in progress	(13)
Debtors	20
Creditors	(15)
BS current account	(60)
Deferred assets	(3)
Extra contract provisions	(19)
	(90)

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From the Minister of State for Industry

Norman Lamont MP

NOPM
AT 14/3

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The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
LONDON
SW1

13 March 1984

Dear Arthur

SCOTT LITHGOW AND TRAFALGAR HOUSE

Thank you for your letter of 29 February about the British Shipbuilders-Trafalgar House conditional deal.

The position is as you describe it. The initial cash cost to Government is about £76m, to be offset by £27m of future income. This income is however rather more secure than you suggest. £3m will appear immediately, as the first payment of the purchase price is due on completion of the contract. The other £9m purchase price is guaranteed under the contract. The £7.4m loan for debtors is regarded by BS as secure as they are confident the claims involved will succeed and be met. The only really contingent item is the £8m for the assets payable if Trafalgar House exercise their option to buy after 3 years. If they make a go of the business, then it is of course highly likely that they will exercise that option.

Copies go to the Prime Minister, Michael Heseltine, Peter Walker, George Younger, Peter Rees and Sir Robert Armstrong.

Yours —

Norman

NORMAN LAMONT

NAT IND Pt 6

Shipbuilding Policy

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NBPM AT 29/2

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

29 February 1984

Dear Norman,

SCOTT LITHGOW AND TRAFALGAR HOUSE

You wrote to me on the 17 February about the financial details of this transaction.

It is not at all clear from the information in Annex A just what the financial position is.

If one starts from the proposition that the £60 m owed by Scott Lithgow to British Shipbuilders has been lost anyway so that this is just a question of writing off, just how much money in terms of cash will British Shipbuilders have to disburse either to Trafalgar House themselves or to other people to enable Trafalgar House to take Scott Lithgow over? Annex A suggests that the total disbursement is about £76 m with a contingent right which may or may not mature to recoup £27 m. Is this the true position? Or are there other substantial but as yet unquantified disbursements lurking in the background?

I am copying this to the recipients of your letter.

Yours,
Arthur.

COCKFIELD

Norman Lamont Esq MP
Minister of State for Industry
Department of Trade and Industry
1 Victoria Street
London SW1

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Nat Ind Shipbuilding Pt 6