PREM 19/1274

SECRET

M1

PART 7

Confidential Filing

The future of British Leyland

INDUSTRIAL POLICY

Part 1: Sept '79

Part 7: Aug '82

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.8.82		~~18.1.84~~					
~~15.11.82~~		~~20.1.84~~					
~~23.11.82~~		~~10.2.84~~					
~~17.1.83~~		~~14.2.84~~					
~~25.1.83~~		17.2.84					
~~3.2.83~~		~~22.2.84~~					
~~16.2.83~~		~~2.3.84~~					
~~4.3.83~~		~~5.3.84~~					
~~9.3.83~~		~~26.3.84~~					
~~15.4.83~~		27.3.84					
~~21.4.83~~		— PART ENDS —					
~~22.4.83~~							
~~26.4.83~~							
~~20.5.83~~							
~~24.10.83~~							
21.12.83							

PREM 19/1274

PART 7 ends:-

E(A)(84) 19 27.3.84

PART 8 begins:-

P Gregson to PM (P.01264) 2.4.84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(84) 19	27/03/1984
E(A)(84) 18	27/03/1984
E(A)(84) 5th Meeting, only item	15/02/1984
E(A)(84) 13	08/02/1984
EQO(83) 168	21/12/1983
CC(83) 13th Meeting, item 4	21/04/1983

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 20/9/2013

PREM Records Team

4.27 CONFIDENTIAL

CC NO

Prime Minister (2)
To note revised date
AT 26/3

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

22 March 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

JAGUAR PRIVATISATION

You wrote to me on 1 March about the date of the Jaguar flotation. – should be 29/2

I agree that 1 May is no longer practical and that we should therefore plan for 24 July. I have looked at this timing in the light of Kleinwort Benson's views about the possible effects on BT of a summer sale of Jaguar. My present view is that Jaguar's sale will not add substantially to the difficulties of selling BT and that we should therefore press ahead.

You have pointed out the work that still has to be done before the flotation can take place and in particular the need for the Government to reach a decision about future funding. I hope that the subject can be brought forward for Ministerial decision as soon as possible and in any event before Easter.

Copies of this letter go to those who received yours.

Yours ever
Nigel

NIGEL LAWSON

IND POL: BL PT 7

23 MAR 1984

11 12
10 1
9 2
8 3
7 4
6 5

NBPM AT 5/3

5 March 1984

MR TURNBULL

BL

I note from the letter to Norman Tebbit from Austin Bide that BL have decided to use the decision to sell 100 per cent of Jaguar as a lever for extracting further money.

We should continue to resist the idea that we make available both the proceeds of the sale of Jaguar and additional equity. There is nothing in the original Corporate Plan to suggest that BL based its whole strategy on Jaguar proceeds as well as additional Government funding.

Nor could the clearing bankers legitimately request the full proceeds of sale and additional Government money. I am equally suspicious of the arguments for delay, but in this case the BL Board have too many cards stacked in their favour to make resistance likely to succeed.

JR

JOHN REDWOOD

2

10 DOWNING STREET

Prime Minister

BL has accepted ~~[illegible]~~ a 100% sale of Jaguar without protest but thinks a 1 May sale cannot be achieved.

AT
2/3

a NB

Spencer

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU863

Secretary of State for Trade and Industry

Copies to:

29 February 1984

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

PS/Mr Lamont
PS/Mr Butcher
PS/Sir Brian Hayes
Mr Sterling
Mr Manzie
Mr Mountfield
Mr Dobbs
Mr Meadway o.f.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

Enclosures:

Copy of letter from
Sir Austin Bide

D Nigel.

JAGUAR PRIVATISATION

When we discussed Jaguar privatisation in E(A) on 15 February we agreed that the BL Board's proposals for a retained 25% stake were unacceptable and that we should proceed by way of a 100% flotation, with either a 25% holding on the employees' behalf or a "golden share" to prevent control passing overseas in the immediate future. We also agreed that while flotation on 1 May, as proposed by the Board, was desirable the need to get the method of sale right outweighed timing considerations.

2 I subsequently met Sir Austin Bide and told him of our decisions on these points; and after discussion with his Board he has now sent me the attached letter. In the light of that meeting and Sir Austin's letter I have to tell you that in my view a 1 May flotation date is no longer feasible, for three main reasons.

3 First, the original timetable for a 1 May flotation on the basis of the Board's proposals was itself extremely tight, and we have now added to the task by requiring BL and our officials to study and report on two other possible methods of flotation, and by requiring BL to unpick such of the work done so far as was consistent with the Board's proposals but not with our own preferred course. Second, as your officials have been informed, BL have run into unexpected troubles with their bankers, who are threatening to reduce the medium-term facilities available to the company if Jaguar is sold. I believe these difficulties to be surmountable, but it will require a little time, and until they are overcome it will not be possible to proceed with the disposal of Jaguar. Third, because of the need to finalise BL's 1983 accounts and to assure the availability of working capital after Jaguar privatisation, we cannot proceed to privatisation until we

have reached a decision on the 1984 Corporate Plan as a whole, including its funding implications. For technical reasons, this decision would have to be communicated to and accepted by the Board by 26 March if a 1 May flotation is to be achieved; and given that there are some very difficult decisions to be taken, especially on the future of Leyland Trucks, I do not believe that we can now undertake to deliver our decisions on that timescale.

4 You will recall that in discussion at E(A) I said that if the date of 1 May was missed it was very probable that privatisation would slip to Summer 1985. That statement was based on firm information originating from the Government Broker that 1 May was the only available slot in the new issue queue during 1984. I understand that the Government Broker has now intimated that a flotation may be possible (though not optimal from a timing point of view) on 24 July. It seems possible that the new issues queue will actually be more congested in July than in May, and Hill Samuel (BL's advisers) are currently considering assessing the diminution of proceeds on account of the deferral. The possible proceeds of a sale in 1985 are of course even less certain.

5 I understand that your Department and mine are agreed that 1 May is no longer feasible, and I have, therefore, asked that BL be informed that we accept this, and that 24 July as a flotation date should be used as the planning assumption until we can consider officials' further advice in E(A).

6 I am sending copies of this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

rec NO

MR DEADMAN (X) ... 233

ACTION (AND REPLY IF APPROPRIATE)

PLEASE BY: ASAP

IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422

COPIES TO
P/S NL
P/S JB
P/S SIR BRIAN
MR STERLING
MR MANZIE
MR MOUNTFIELD(V)
MR DOBBS

BL Public Limited Company
35-38 Portman Square
London W1H 0HQ
Telephone: 01-486 6000
Telex: 263654
Cables: Leymotors London W1 Telex

The Rt Hon Norman Tebbit, MP
Secretary of State for Trade & Industry
1 Victoria Street
LONDON SW1

23 February 1984

Dear Secretary of State,

My Board met yesterday and considered its proposal to you for the privatisation of Jaguar in the light of our discussion with you last week and in the light of discussions we have had with other parties.

The letter from your Private Secretary confirming what was said at our meeting was most helpful and the Board was pleased to learn that you shared our view, at this stage at least, that Jaguar should not be sold to a foreign company.

The Board understood your wish to see Jaguar privatised through a flotation of 100% of the shares and your proviso that there should be a blocking mechanism by the use of a "golden share" against an overseas company assuming control of Jaguar strikes us on present information as quite feasible. We do not, as you will see from the attached letter to you officials, consider the idea of a 25% holding by employees to be an acceptable alternative.

The additional purpose to be served by our own proposal, for BL to retain a 25%+ stake was to minimise the adverse effects on the remainder of BL's business that could well arise from the Jaguar disposal. Although in our opinion an inferior method, we are striving to set up contractual arrangements through which, given mutual goodwill, to achieve a workable, if not wholly adequate, method of protecting the interests of both parties. We are specially anxious to avoid overturning the distribution boat of either party and, as I am sure you will appreciate, competition law poses particular limitations in this regard - not least in the important home market.

I clearly understand that although a May date is much preferred, if it becomes impossible to achieve, then the need to have a 100% flotation with adequate safeguards takes precedence over timetable considerations. The May date in our original proposal rested, as I said to you in my letter of 23 December, on our receiving an early decision from you on the privatisation of Jaguar. This has not proved possible for reasons we fully understand.

The Rt Hon Norman Tebbit, MP 23 February 1984

I have now to inform you that our discussions with the Clearing Bankers, whose approval for substantial disposals is required by the conditions of the £277m medium term loans, have led to a demand on their part for the proceeds, in whole or in part, to be applied in reduction of their loans. It is clear to us that the Clearing Bankers' determination in this matter will be affected by Government's position on the outstanding equity which you agreed to make available on the demonstration of need when approving the 1983 Corporate Plan. From our discussions with you, we concluded that while you and your colleagues had not taken a decision on this matter, there were reservations over this aspect - and possibly others - of our Corporate Plan. The funding consequences of these issues are spelt out in detail in the attached letter to your officials, but they lead my Board to the conclusion that it would be most difficult for it to take and publish a decision on the disposal of Jaguar until the 1984 Corporate Plan has been agreed between us and until we have secured our existing and proposed borrowing facilities. Indeed, Plan approval is, through its effect on our Annual Accounts, an integral part of the timetable for a disposal. The reasons for this are also set out in the attached letter.

It therefore appears to us most unlikely that we will be able to proceed with the May date for a disposal of Jaguar. As you know, there is only a small "window" during which we can effect a disposal before the XJ40 launch build-up. At the time of our recent meeting, we had been assured and reassured by the Government broker that 1 May was the only date available within the "window". However, on further enquiry we have, with the help of your officials, now elicited that a date may be made available in July.

Your officials have been fully apprised of these and all related matters and my staff will, notwithstanding the Board's views expressed above, discuss with them the alternative blocking mechanisms outlined in Mr McCarthy's letter. Equally the staff will explore with officials possible actions to overcome the funding difficulties arising from the Clearing Bankers' response to the proposed disposal.

I trust that this response from my Board, together with the detailed discussion between officials and staff, will enable you to put mutually satisfactory proposals to your Ministerial colleagues in respect of the privatisation of Jaguar.

Sincerely.
Austin Bide

SIR AUSTIN BIDE
Chairman

29/2 TL

Reminded 1/3

The "MONTEGO"

BL's New Car

10 DOWNING STREET

From the Private Secretary 24 February 1984

David / Tim

When I chased DTI today they said you had agreed that the S/S DTI should send the message.

OK to P.A?

Kay 1/3/84

Kay

Yes please.

DWB 2/3

Last year on the launch of the Austin Maestro the Prime Minister sent a message to the British Leyland dealer network. Mr. Norman Childs, Public Relations Director of Austin Rover has now enquired whether it would be possible for the Prime Minister to send a similar message for the launch of the Montego. I should be grateful for your urgent advice whether such a message would be appropriate, and if so a draft by Wednesday 29 February.

Tim Flesher

Andrew Lansley, Esq.,
Department of Trade and Industry.

TPF

10 DOWNING STREET

David

Norman Childs, Public Relations of Austin Rover in Coventry phoned.

Last year Tim arranged for a PM message to go to dealers on the launch of the Maestro, he wonders if the same could be done for the Montego to be launched shortly.

A message would be needed by Friday next week.

His number is:
0203 70111 ext 3153
or direct line 0203 73988

PTO

Press Office are looking out papers — attached.

Nicky

CONFIDENTIAL

c: Mr Turnbull
(For information)

MR REDWOOD

File

BL

In my judgement, the review now in process of the BL Corporate Plan could very well lead to confrontation between the BL Board and Government. There are at least four opportunities:

1. Last week E(A) rejected the Board's wish to retain a controlling minority stake in the privatised Jaguar.

2. Within the next 2-3 weeks, Ministers will need to decide whether to back the Board's view over Leyland Vehicles. To put it briefly, the Board wish to close Bathgate but to soldier on with the rest of the operation, even though it would continue to lose money into and beyond 1988. DTI, Treasury and Policy Unit are at one in rejecting the Board's view, and will recommend either closure or disposal.

3. To complicate matters, we shall also be recommending separate treatment of Land Rover and Leyland Vehicles. This, too, runs counter to the wishes of the Board, who would much prefer to deal with Land Rover Leyland as one lump.

4. Finally, and looking some weeks further ahead, there is scope for vehement disagreement over the plans for Austin Rover - in particular over whether a less ambitious model programme, leading to better cash flow, could in turn lead to earlier privatisation.

The plan which the BL Board have put up bears all the hallmarks of an exercise carried out largely by operating executives with a vested interest in the status quo. I cannot imagine that it was thoroughly probed by the non executive directors. Such a plan should prompt Government to ask whether the structure and membership of the BL Board is appropriate to the company's current and impending problems (my Annex details the current team of four non executives and two executives). It does not seem to be getting to grips with the problems which the Edwardes era overlooked - the slide of the truck business as a whole, and the near total failure of Austin Rover and Land Rover to find new markets.

If my anxieties about impending confrontation prove well founded, what should we do? I would suggest nothing before Ministers debate Leyland Vehicles. But at that debate we should not duck the right commercial decisions for fear of crossing the BL Board. There will be a hint of this in DTI arguments. If Ministers choose to reject the BL Board's recommendations for Leyland Vehicles, it seems to me that a fireside chat between (say) the Prime Minister, Mr Tebbit and Sir Austin Bide might be a tactful way (a) of spelling out Government's wider unease about BL's performance and (b) of notifying the rejection of the plan for Leyland Vehicles. DTI might well find difficulty in reconciling their traditional notions of industry sponsorship with delivering such a message to BL. They ought to welcome help in getting it across.

RJ

ROBERT YOUNG
22 February 1984

BL PLC BOARD

Non executive members:

Sir Austin Bide - Chairman of BL PLC.
Chairman of Glaxo, Appointed to BL Board in 1977, Deputy Chairman under Michael Edwardes 1980, Chairman since 1983. Chemist by background.

Sir Robert Clark - Chairman of Hill Samuel, Director of BL since 1977. Banker by background.

Sir Robert Hunt - Chairman of Dowty, Director of BL since 1982. Mechanical/aeronautical engineer by background.

Sir John Mayhew-Sanders - Chairman of John Brown, Director of BL since 1982. Chartered Accountant by background.

Executive Members

David Andrews - Chairman of Land Rover Leyland Group since 1982. With BL since 1969, Ford and Pirelli before that.

Ray Horrocks - Chairman of Cars Group since 1982. With BL since 1978, and Eaton, Ford and retail stores before that.

cko

DEPARTMENT OF TRADE AND INDUSTRY
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(Switchboard) 215 7877

JF5695

Secretary of State for Trade and Industry

17 February 1984

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1

Prime Minister ②

AT 17/2

D George,

MS

LEYLAND TRUCKS

Thank you for your letter of 20 January about the future of the Bathgate plant. I can quite understand the concern you express.

2 We can consider most of the points you raise in more detail when we have officials' report on BL's 1984 Corporate Plan. But I ought to make two points now. First, I do not think there is much doubt that there is still plenty of latent demand for Leyland Trucks in Nigeria and other traditional markets; but the problem is, as you know, that these countries cannot afford to pay for the trucks they want. Unless, therefore, Geoffrey Howe was prepared to cut aid to other countries by a significant amount, your suggestion would amount to a considerable increase in public expenditure to subsidise Leyland, as opposed to other vehicle and other manufacturers in the UK whose exports to developing countries have suffered for the same reasons as LVL's.

3 Second, you mention the possibility that a recovery in LVL's export markets might occur in the next two years and make Bathgate viable again. I have to say that the prospects for a sharp recovery in LVL's most important markets are not good, and that many of the problems appear to be very deep-seated. But even if there were a sharp recovery, it may not help Bathgate much. As you know, it has for over two years been the Board's intention, endorsed by us, to concentrate truck assembly at Leyland in Lancashire, in order to gain economies of scale. You will also know that the Board plans in future to serve export markets using derivatives of domestic models rather than models expressly

designed for export, which Bathgate has until now assembled. The future of Bathgate has always been seen to be dependent on the proposed collaborative Family I engine project, the prospects for which I am afraid are not encouraging.

4 However no decisions have been made and, as I say, all these points will have to be considered in the context of the Corporate Plan. I can assure you all your points will be fully taken into account.

5 I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, John Biffen and Tom King, and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

IND POL
British
Leyland
Pt. 7

10 DOWNING STREET

Prime Minister

Since you saw Policy Unit's note, we have checked whether Jaguar management itself believes a shareholding link with BL is essential. As far as we can establish it does not - see further PU note.

AT

14/2

CONFIDENTIAL

MR TURNBULL

JAGUAR

I have now spoken to Sir Terence Burns in the Treasury who was visited by Mr Egan on Friday night. The meeting took place at Egan's suggestion as he was worried about press stories that the Treasury favoured sale of Jaguar to General Motors.

Egan said to Burns that:

1. He was against the sale to GM. He saw few advantages and many disadvantages in becoming part of a large American group.

2. He felt Jaguar was a viable independent business.

3. Within the first two or three years Jaguar would need some mechanism to block foreign take-over in the stock market following flotation.

4. He did not believe that strong links with the BL Group were a necessary condition of Jaguar's success, but nor did he argue strongly in favour of 100% sale.

His lack of decisiveness on this latter issue reflects the fact that he does not know that E(A) is taking place, nor does he know the exact arguments that will be put to E(A). However, from this conversation, I think we have enough without talking to Egan himself and alerting him to the E(A) meeting.

I think in the Prime Minister's briefing for tomorrow's meeting we should reinforce the point that it does require some blocking mechanism to prevent foreign take-over after flotation and this is quite compatible with 100% flotation of the whole company in the first instance. We can also say that the management of Jaguar would be extremely reluctant to work for American masters but are quite happy to go it alone.

John Redwood

JOHN REDWOOD
14 February 1984

CONFIDENTIAL

cc AO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

THE PRIVATISATION OF JAGUAR

We are to discuss in E(A) tomorrow the Secretary of State for Trade and Industry's proposals for Jaguar privatisation - E(A)(84)(13).

2. If we rule out sale to General Motors, I should have thought that it might be worth exploring the possibility of a management buy-out. But if we instead move to a flotation, I should prefer the sale of 100 per cent of the shares, rather than the 75 per cent which Norman Tebbit envisages. To leave BL holding 25 per cent of the shares would not be satisfactory. Such existing links as are mutually beneficial, e.g. access to technology and joint dealerships, could be preserved through a contractual agreement. And we can use the special share option to guard against foreign ownership, as we have done with Cable and Wireless, Britoil and Amersham.

3. More important, minority stakes are contrary to our general approach of cutting the ties binding companies such as Jaguar to the rest of the public sector. We want Jaguar to be independent of considerations relevant to Austin-Rover Group's commercial and trading position, and to do all we can to ensure that they do not become re-infected by any new industrial relations problems affecting the rest of BL cars.

4. Copies of this minute go to Norman Tebbit and other E(A) colleagues.

J. Walker

PP (N.L.)
14 February 1984

14 FEB 1984

P.01222

PRIME MINISTER

The Privatisation of Jaguar
(E(A)(84)13)

BACKGROUND

British Leyland's (BL's) main strategic objective is to return all the constitutent businesses, together or separately, to the private sector. The BL Corporate Plan for 1984 proposes the flotation of Jaguar on the Stock Exchange, with BL retaining a substantial shareholding (between 25 and 30 per cent) so that they can prevent control of Jaguar passing to another company. A provisional date has been arranged for the flotation of 1 May 1984; in order to meet that, Government approval for BL's proposal is required within the next fortnight.

2. General Motors (GM) are also interested in acquiring all of, or a controlling interest in, Jaguar. No other potential buyer of a major stake in Jaguar has emerged.

3. The interdepartmental Official Group on BL considered the BL proposal, acquisition by GM and other options for the privatisation of Jaguar but could not agree on recommendations for Ministers. Their report is attached to Mr Tebbit's

FLAG A memorandum E(A)(84)13. Within the Group views differed on:

- the desirability of selling all or part of Jaguar to another vehicle manufacturer (inevitably foreign);

- the desirability of allowing BL to retain a minority stake in Jaguar.

The matters discussed in the annex to the official paper (for example that BL should retain the proceeds of the sale of Jaguar, and that the Varley-Marshall assurances would not apply to Jaguar after privatisation) have been agreed among the departments mainly concerned and are unlikely to be raised at the meeting.

4. In the memorandum E(A)(84)13, Mr Tebbit seeks the Sub-Committee's approval for BL's proposal for the privatisation of Jaguar.

MAIN ISSUES

5. The main issues are as follows:

a. should there be a sale of Jaguar to a foreign vehicle manufacturer; or

b. should the company be sold by a flotation on the Stock Exchange, and, if so,

c. should BL be allowed to retain a shareholding sufficient to prevent another company gaining effective control.

Sale to a foreign manufacturer

6. Mr Tebbit sees major disadvantages in a sale to GM or some other foreign vehicle manufacturer: a loss of British identity for Jaguar; commercial damage to BL because of potential competition with the top of the Austin-Rover range and the loss of joint franchising; possible legal challenges from BL's minority shareholders which could delay the sale; and, most of all, political opposition to a sale seen to be against the wishes of both BL and Jaguar management.

7. Against these considerations the Sub-Committee will have to weigh the possible advantages of a sale to GM: higher sales proceeds and the benefits of a link with a major world manufacturer giving a sounder financial base and better access to markets and to new technology.

Flotation on the Stock Exchange

8. If the Sub-Committee do not favour sale to GM or a foreign vehicle manufacturer, but wish to proceed with privatisation, the only feasible option at present is a flotation. The basis of the flotation will have to take account both of the Sub-Committee's views on foreign control and of the doubts about Jaguar's long term viability as an independent company. Jaguar is a low volume, specialist producer, vulnerable to a single unsuccessful model venture and to fluctuations in the dollar/sterling exchange rate. It needs links with another major company to provide a sounder financial base, and preferably with another vehicle manufacturer providing R & D and franchising support.

9. For these reasons Mr Tebbit would argue against 100 per cent flotation. Although the sale proceeds would be higher than under a partial flotation, Jaguar would have an uncertain future. In particular it could mean eventual sale to GM or some other foreign manufacturer. The Government would be distanced from that outcome but might look foolish for not selling to GM in the first place, especially as, under this scenario, the higher sales proceeds would accrue to the Jaguar shareholders rather than to BL.

10. It has been suggested that the way round the difficulty of ultimate foreign control might be to combine 100 per cent flotation with a "golden share", limiting ownership or control to the UK, of the kind which has been envisaged in some other

contexts, for example oil and aerospace. The problem is that there are serious doubts as to whether, in respect of a company such as Jaguar, such a provision would prove to be effective in Community law. If Ministers were attracted by this option the legal considerations would need to be examined in much more detail. If Ministers were unwilling to contemplate a subsequent takeover of Jaguar by a foreign manufacturer, they would need a high degree of confidence about the likely effectiveness of a "golden share". There would remain the political difficulties of justifying such a provision. Finally the option of 100 per cent flotation with a golden share would not answer the need for a continuing association between Jaguar and some major company, preferably a vehicle manufacturer.

Flotation with a substantial BL holding

11. Mr Tebbit therefore favours BL's proposal for flotation with a BL holding of just over 25 per cent. Although the sales proceeds would be lower, it would be less disruptive to Jaguar, would minimise the damage to BL, and would keep open options for the future. One option considered in the officials' report which is not a live possiblity at present is takeover by a major British company not in the vehicle business. This might in the end prove to be the best solution. Meanwhile however BL's proposal would provide an opportunity to get some private sector money into the car business, and the substantial private stake in Jaguar should not only further the privatisation programme but should help to motivate the Jaguar management and workforce.

HANDLING

12. You will wish to ask the Secretary of State for Trade and Industry to introduce his proposals and the Chief Secretary, Treasury will then wish to reply. The Chancellor of the Exchequer may wish to comment on how the proposals fit in with

the privatisation programme; and the Foreign and Commonwealth Secretary may have a view on the international implications of restricting the control or ownership of Jaguar to the UK.

CONCLUSIONS

13. You will wish the Sub-Committee to reach conclusions on the following:

i. should a foreign company, such as GM, be allowed to acquire Jaguar; or

ii. should there be a flotation on the Stock Exchange in May 1984; and, if so

iii. should this be on the basis proposed in E(A)(84)13 with BL retaining a shareholding of just over 25 per cent;

iv. how and when should the Government's intentions be made known.

PLG

P L GREGSON

14 February 1984

CONFIDENTIAL

POLICY UNIT

10 February 1984

PRIME MINISTER (2) For E(A) on Wednesday. No need to read annex to E(A)(84)13 apart from pages 12-15 and the additional annex at the back. AT 10/2

PRIVATISATION OF JAGUAR

The DTI are under the influence of the BL Board. BL have been dragged into agreeing to the disposal of two subsidiaries against their will and are now fighting a rearguard action.

The DTI are right that maximum proceeds would come from sale to General Motors. Industrial logic also favours this route. However, you could support the DTI in rejecting sale to an overseas buyer on political grounds.

The DTI should not be supported in their preference for a residual 25% BL holding. A golden share can be used to block future takeover. Many of BL's minority shareholders have bought their shares in the last year on the back of press speculation that they will obtain preferential application forms for Jaguar and Unipart. Those people are hardly likely to oppose complete sale.

A segregated Jaguar would not necessarily sever all its links with the 10% of BL dealers who currently sell Jaguars. Nor could it be guaranteed that a 75% private Jaguar would wish to preserve all the existing dealership links. The DTI fails to show how retaining a portion of Jaguar shares in BL assists the eventual privatisation of Austin-Rover and have already argued privately that there is no realistic prospect of privatising Austin-Rover during the life of this Parliament.

The DTI are correct that Jaguar on sale will pass outside the government debt guarantee. BL and some in the DTI wish to go further and positively reaffirm the Varley-Marshall assurances on the rest of BL's debt, probably because Norman Lamont has started raising good questions about how enduring and how large the government's commitment to BL's debts has to be. It would be better to say nothing in case in due course a way can be found to disengage a little.

The DTI are also correct that the sale proceeds will have to go to BL. These proceeds could replace any other government monies for the Group.

We recommend E(A) supports:

1. the DTI in ruling out foreign takeover; ✓

CONFIDENTIAL

CONFIDENTIAL

2. sale of 100% by flotation in the first half of 1984;

3. the use of a Golden share to block early takeover after flotation; ?? - inconsistent with 2.

4. caution in making the other pledges to BL that the Board are seeking as the price of their acquiescence.

Attached is a handling brief based on key issues raised in the officials' paper.

JOHN REDWOOD
10 February 1984

CONFIDENTIAL

CONFIDENTIAL

JAGUAR

The key issues are:

1. Jaguar is small and needs a partner.

Quite true, but Jaguar will start with a strong balance sheet and should not need financial support beyond its own reach within the first three years or so of independent life. A partner from the outset is not undesirable, but not essential either.

2. Jaguar is vulnerable to the £/$ relationship.

Quite true now, and likely to remain so. This would argue in favour of ownership by a company which can (a) stand the ~~sw##ings~~ swings and (b) can offset the disadvantage within the USA.

3. Jaguar needs to retain its existing trading links with BL, partly for technology reasons and partly because of the established dealer network.

Not true on either count.

(a) We see no reason why Jaguar cannot continue to buy services, if its commercial judgement inclines that way, from BL Technology. Even the BL proposition that BL should retain 25%-30% of Jaguar would require an arm's length trading relationship between Jaguar and BL Technology. Jaguar should be free to buy technical services wherever it can, or to develop its own. The same applies to body tooling and panels. Rolls-Royce has bought from BL and others, on an arm's length basis, for many years.

(b) As to preserving the dealer network, the argument has limited validity in the UK and none overseas. If the majority of shared outlets with Austin Rover are effective, an independent Jaguar will want to keep them, and even a new owner will think twice before tearing up the arrangements. Overseas, Austin Rover can offer Jaguar next to nothing.

4. Part of the Jaguar appeal is its Britishness.

Quite true. British sentiment would be offended if Jaguar were sold overseas.

For the longer term, however, we should distinguish between a true multinational like General Motors, which lacks any strong national

/hue

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hue, and an overseas purchaser such as BMW, Daimler Benz or Toyota who are very clearly part and parcel of strong national cultures.

5. Since Jaguar needs to keep a relationship with BL in the short term and may need a relationship with a volume vehicle maker in the longer term, the logical course of action is to leave a minority "controlling" interest with BL.

This is nonsense. Financially, BL can offer Jaguar nothing without recourse to the taxpayer. We judge that a 25%-30% holding by BL in Jaguar will circumscribe Jaguar's freedom to pursue its best commercial interests, and will be somewhat diversionary for BL.

RY.

ROBERT YOUNG
10 February 1984

CCNO

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Prime Minister (2)
To note
AT 23/1

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H OET

20 January 1984

Dear Norman,

LEYLAND TRUCKS

I was grateful to see the copy of the letter of 18 January which your Private Secretary sent to the Chancellor's about Leyland Trucks. This was useful when Allan Stewart and I met ~~Ronald~~ Hancock of Leyland Vehicles on Thursday afternoon, 19 January, for an updated briefing on the company's problems and its intentions in Scotland.

As your officials have reported to you, there has been very considerable media interest, concentrated upon my Department, with much speculation as to what the omission of Bathgate from the present round of redundancies might mean for the plant's future. Like you, I think we must take care to ensure that nothing the company - or any of us - says in public in the meantime should prejudge the collective consideration by Ministers of the 1984 Corporate Plan.

I fully recognise the seriousness of the plight of Leyland Trucks, and the vulnerability of Bathgate, though naturally I should have to be satisfied that we had looked at, and rejected, every other possible option before countenancing closure of this economically important investment in Scottish industry. In particular I would want to see if one or other of the Japanese automotive companies might be interested in a UK truck assembly/manufacture operation at Bathgate as a going concern, with the possible advantage of an easier entry into untapped EC markets from a British production base. This might be in collaboration with Leyland Trucks - complementing the more limited range they will have if their business is to continue. I would also be grateful if perhaps you and Sir Geoffrey Howe might jointly explore whether there is any scope for action to stimulate export sales of lorries. I am told by the company - and by Tam Dalyell and Robin Cook, who brought a delegation to see Allan Stewart last Tuesday, and are returning to see me on Tuesday next - that there is plenty of latent demand for Bathgate's trucks in countries such as Nigeria, but that at present the combined effect of non-tariff barriers, trading and currency restrictions and lack of credit make it difficult in practice to achieve sales, which have fallen dramatically. I appreciate that HMG's leverage is limited but it may yet be possible to achieve something significant, for example in negotiating removal of some of the obstacles with the new Nigerian regime, perhaps involving flexible use of the UK aid programme. After all, in the Corporate Plan Scenario, Bathgate would not be due to cease assembly operations till late 1984, nor engine manufacture till late 1985, so there would be a short breathing space even if sentence were to be pronounced by our approval of the Plan. I am always very conscious of the speed with which market conditions can change - as witness the decisive upward movement in the price of aluminium, which might have enabled the Invergordon Smelter to survive.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, Geoffrey Howe, Tom King and John Biffen.

Yours ever,

George.

Ind Pol B2 Pt 7

010

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COMMERCIAL IN CONFIDENCE

> SC / NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
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(Switchboard) 215 7877

JH 614

PS/Secretary of State for Trade and Industry

18 January 1984

J O Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Prime Minister (2)
To note the immediate redundancies and the difficult choices that the Corporate Plan will present.
AT 18/1

Dear John,

mt

BL: LEYLAND TRUCKS REDUNDANCIES

My Secretary of State feels that the Chancellor and colleagues should be aware that Leyland Vehicles Ltd will be announcing in the course of Thursday 19 January about 1000 redundancies in Leyland Trucks. This Department has been consulted about them under BL's Memorandum of Understanding with us, in view of their economic and political significance, but levels and announcements of redundancies are primarily a matter for the BL Board and my Secretary of State does not think it would be sensible to press them to put off a step which makes commercial sense.

2 These redundancies are necessary to bring manning levels better into line with the current levels of activity in the business. Their announcement in no way prejudges any particular outcome of the Government's current consideration of the proposals for the future of Leyland Trucks in BL's 1984 Corporate Plan, which was received on 23 December. The Treasury and other interested Departments are, of course, represented on the Official Group on BL which is now urgently working up advice on BL's plan and possible alternatives to it.

3 The redundancies to be announced on 19 January are spread across all parts of Leyland Trucks expect the Bathgate plant. They are concentrated at Leyland, Lancs (about 500) and Albion, Glasgow (about 370) with some at Scammell at Watford (about 150). National union officials will be informed in the morning with plant announcements later in the day.

4 The nature of the BL Board's proposals in the 1984 Plans for Trucks and the options open to us make reactions in response to queries following this news particularly delicate. The Board's proposal is for Leyland Trucks to become an assembler only, with a considerably simplified model range. Manpower would be halved

from 10,000 to 5,000, and Bathgate would be closed, with the cessation of engine manufacture and concentration of assembly at Leyland. Possible alternatives include the closure of Trucks, or - if it could be brought off - some merger solution. It is because Bathgate will have to be closed - whatever course is decided upon - that no redundancies there are to be announced at this stage.

5 Clearly the objective in handling reaction to the present announcement should be to minimise the increase it leads to in the political pressure on the Government, already strong in Scotland in relation to Bathgate, especially since investment in an engine operation there was suspended in December. It will be necessary to stick to the position that the 1984 Corporate Plan is under consideration and decisions will be announced as soon as possible. We have told BL (not that the Board would want, as far as we can tell, to do it otherwise) that they must handle the announcement is such a way as to avoid prejudicing any option open to Ministers, including the closure of Trucks.

6 We will be providing separately briefing for Prime Minister's questions and for the Business Statement on Thursday.

7 I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland and for Employment, to the Lord Privy Seal and to the Secretary to the Cabinet.

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

cc TF

Prime Minister (2)

AT 18/1

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

to see

Miss Thompson (PS/Secretary of State)

cc PS/Mr Lamont
PS/Mr Butcher
Mr Manzie
Dr Thynne NWRO
Mr Woodrow Inf
Mr Hardbattle PB
Miss Silver Press Office
Mr Long

LEYLAND TRUCKS REDUNDANCIES

Further to the draft Private Secretary letter of this morning, I now submit a brief and background note. The numbers of redundancies are BL's latest figures, as of this morning, reflecting their most up-to-date intentions.

2 I suggest that you circulate these to the Chancellor's office and the other offices who received copies of your letter.

3 I am sending the top copies to Parliamentary Branch, who may wish to forward it for Prime Minister's questionsand the Business Statement.

4 I hear that today's Scottish press is full of speculation, some well informed, some wrong, about job losses both at Albion and Bathgate and various meetings. The Scottish Secretary is up for First Order PQ's this afternoon. He is being briefed by the Scottish Office with whom we are keeping in very close touch. The DTI Press Office will not want to get publicly ahead of what BL says, as it is their announcement.

RJM

R J MEADWAY
V2
Ashdown 277
212 0993
18 January 1984

Kym
Pl. circ to recipients of my earlier letter on timer + ret to me for tonight's box
R 18/1.

LEYLAND TRUCKS REDUNDANCIES

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

BACKGROUND NOTE

At 11.00 on 19 January BL will be telling union representatives about some 1000 redundancies in the Leyland Trucks plants at Leyland (about 500), Albion, Glasgow (about 370) and Scammell, Watford (about 150).

BL's 1984 Corporate Plan, which is currently being considered by the Government, proposes the complete closure of the Leyland Trucks plant at Bathgate in West Lothian and a substantial number of redundancies elsewhere in Leyland Trucks. Ministers have not yet decided whether to accept the Board's proposals, or whether to press the Board to dispose of Leyland Trucks or to close it completely. All the likely options involve the closure of Bathgate, and it is proposed that this should be announced once Ministers have reached their decision. The redundancies now being announced arise out of an internal management exercise and would be necessary whatever Ministers' decisions on the Corporate Plan. In response to questions BL will be at pains to avoid any suggestion that the remaining jobs, particularly those at Bathgate, are now safe.

V2/DTI
18 January 1984

LEYLAND TRUCKS REDUNDANCIES

LINE TO TAKE

informed?

The decision to reduce the numbers employed in Leyland Trucks was taken by the BL Board in the exercise of their commercial judgement. The Government was consulted in advance because of the redundancies involved, but it would not be appropriate for the Government to intervene. The management considered the redundancies essential in view of the contraction of the markets for the truck business's products and its heavy losses.

[IF ASKED WHETHER REMAINING JOBS IN TRUCKS ARE SAFE]

The Government cannot guarantee that. The management has made clear to the workforce the seriousness of the position of the business.

[IF ASKED ABOUT THE FUTURE OF THE TRUCKS BUSINESS]
[IF ASKED ABOUT PRIVATISATION OF ANY PART OF BL]

The Government is considering BL's 1984 Corporate Plan and decisions will be announced as soon as possible.

[IF ASKED ABOUT BATHGATE]

This is being considered in the context of the Corporate Plan.

V2/DTI
18 January 1984

SECRET AND PERSONAL

FILE

da

2

10 DOWNING STREET

From the Private Secretary

24 October 1983

British Leyland

The Policy Unit have produced a note on the privatisation plans for British Leyland. The Prime Minister has asked that this should be shown to the Secretary of State on a personal basis. It is not being copied more widely and I would be grateful if it were not released outside the Private Office.

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET AND PERSONAL

21 October 1983

Policy Unit

PRIME MINISTER

COMPETITION AND PRIVATISATION

The Chancellor's July initiative is in danger of losing its way. We will certainly fail to meet our objectives on privatisation and competition during this Parliament if we accept the disappointing replies from Departments.

The Treasury's paper for E(A) does introduce a sense of urgency. It is now essential for you to put your full authority behind the privatisation programme.

We suggest that at the E(A) meeting, you:

1. Endorse Nigel's paper calling for a co-ordinated timetable for action for this Parliament.

2. Announce your intention of chairing regular progress meetings to ensure that the momentum is maintained.

3. Request Sponsor Ministers who have not yet reached final decisions to produce timetable options for their industries.

This will give John Moore sufficient backing to ensure that Sponsor Ministers expose their thinking and, equally importantly, provide the political commitment which appears to be required before Sponsor Departments carry out the detailed work which this programme requires.

It is not as if the Chancellor's July letter began this exercise. Departments should have been thinking about privatisation and competitition since 1979. By December, we shall be 6 months into our second term.

We cannot allow Peter Walker and others to opt out of this exercise. Preferred solutions for gas and electricity are still being developed, but Peter could at least produce alternatives which can be modified later on. We cannot agree a co-ordinated programme which omits the energy industries. Peter may argue that these issues have to be handled with great secrecy, but there is no secret about our Manifesto commitment to introduce private capital into the gas and electricity industries.

To give you some idea of the lack of commitment in Departments, I attach a copy of John Redwood's report on the British Leyland submission.

The replies from Departments have also failed to take proper account of the points mentioned in Nigel's paragraph 5, such as the introduction of competition and the treatment of the loss-making industries. Some of these were explored at the Chequers seminar and in earlier reports, eg from the CPRS. But they still do not seem to have sunk in. We attach a summary of these points which might help John Moore to extract proper responses on the second round.

Would it be useful to circulate these to colleagues?

FM

FERDINAND MOUNT

20 October 1983

MR MOUNT

BRITISH LEYLAND

The Department of Trade and Industry's submission concerning privatisation plans for British Leyland are woefully inadequate and conceal potential risks and dangers for the Government if it continues to follow Department of Industry policy.

1. Jaguar

There is no reason why the whole of Jaguar should not be sold in 1984. The proposal that one quarter of Jaguar should be sold then with the remainder floated in 1985 is based on the premise that Jaguar's profitability will continue to improve and that therefore a higher sale price will be achieved by delay for the bulk of the equity sale. Investors are quite able to discount ahead, and the prospectus in 1984 can make clear the management and Department of Industry's view of the rising trend of profitability.

2. The sale of Unipart is possible in 1984, and there should be a clear resolve to dispose of it within that calendar year.

3. Four-wheel drive vehicles

The British Leyland Board and DoI have decided to link the fortunes of the four-wheel drive operation to those of Leyland Trucks. Leyland Trucks is hopelessly adrift, probably heading for losses of around £100 million in the current year, when taking into account interest charges. There is little common ground between the trucks business and the four-wheel drive operation. The four-wheel drive business is losing market share rapidly, but still has some good products and a prospectus can be drawn up on the basis of it being profitable in the future. This should be done in 1984 and the business sold before it:

(a) is contaminated by the general problems of the group;

(b) has insufficient capital to renew its model range at a time of intensifying competition;

(c) suffers from a lack of management concentration on its problems in view of the greater problems elsewhere.

4. Austin Rover

The prospectus for Austin Rover which DoI and BL are writing envisages sale to investors after 1990. It is a bogus prospectus.

Their cash flow projections assume a continuing outward flow of cash from the business until some magic in 1990 transforms the business into profit and modest cash inflow. The figures conceal the fact that Austin Rover is to embark on a very expensive, 3 new model programme between 1984 and 1989, where the ultimate paymaster must be the taxpayer in view of the continuing drain on the business's finances, and the gross deterioration in the balance sheet which will take place on DTI figures over that time period.

We require from the DTI a paper setting out the detailed options for the future of Austin Rover. These options should include a strategy for speeding up the disposal of Austin Rover on the back of the successful introduction of the Acclaim, Metro and Maestro models. This disposal could take place within the next 2 years and may entail a dowry. A second option should be to continue with Government ownership of Austin Rover, but with a reduced new model-building programme, and a tapering of the financial commitment of the Government under the Varley-Marshall assurances. The third option would be a splitting up of the different operating units of Austin and Rover, and the partial sale of some of these units. The fourth option would be to explore the scope for collaboration with a foreign car producer and a sharing of the risks and capital. There has been little work on the likely future shape of Honda involvement in BL following the XX.

Without such a paper setting out the options for Austin Rover, it will be extremely difficult to judge the commitment to the privatisation plans within the DTI and BL. The Government will be faced with the need to sign a blank cheque, where the numbers involved in Government support could become very large indeed if any small thing goes wrong with Austin Rover strategy as currently set out.

5. Truck and Bus

The current state of the truck business at BL illustrates the dangers of delaying disposal in the belief that things will get better. Some years ago the case for disposing of trucks when it was still breaking even was rejected on the grounds that the business would strengthen. We are now heading for the worst trading year on record, and there is no sign of any relief. There needs to be a more rapid exploration of the options for collaboration with other companies in the truck division, and also a more serious exploration of the possibilities of sale of the truck business, even with a dowry if necessary.

Conclusion

The strategy towards BL is drifting. The statements about the extent of privatisation commitments are misleading and as the DTI submission on BL illustrates, there is a lack of commitment to the policy by both BL and the DTI.

JOHN REDWOOD

COMPETITION AND PRIVATISATION

In the light of the responses to the Chancellor's letter of 25 July, it may be helpful to re-emphasise certain points which have been made in previous debate. It is hoped that these points will assist in the forthcoming discussions between the Financial Secretary and departments concerned with privatisation.

1. Our objective is to displace state ownership and control both by private ownership and, wherever possible, by the discipline and pressures of the marketplace. The introduction of competition is therefore an essential element of our policy and one which is more relevant for the public utilities and so-called "natural monopolies" than for manufacturing industries where a competitive environment already exists. We must ensure that all barriers to competition, including legislative barriers, are removed and that structural changes are considered which encourage competition.

Using Existing Legislation

2. To avoid crowding the Parliamentary timetable, we must use to the maximum the powers under existing legislation to sell off parts of the nationalised industries, particularly those areas which can operate in a competitive environment.

Splitting up Conglomerates

3. The claimed benefits for vertical integration in many state industries should be critically examined. Large, unsuccessful conglomerates should not be held together in the belief that in due course they will become more successful and profitable overall, enabling sale of the whole. Experience shows that it is usually better to split them up and gain the benefits from management diversity and access to private capital for the separate bits.

Reducing the Natural Monopoly

4. It is often possible to separate the parts of a nationalised industry which could operate in competitive markets from those which are natural monopolies. In most cases, the extent of natural monopoly is small and confined to the common-carrier infrastructure. The natural-monopoly elements can be left in the public sector, or privatised and regulated. Whichever route is preferred, we should do everything possible to provide a competitive environment for those who buy from or sell to a natural monopoly.

Long-Term Contracts and Franchising

5. Long-term contracts for the use of the services of a common carrier, in effect leasing part of the network, can be an effective way of increasing market pressures. Similarly, franchising does allow for periodic competition and gives scope for the entry of new producers within a network industry.

Regionalisation

6. Although regionalisation would produce local monopolies in those industries where effective competition is not possible, there is scope for stimulating competition between the management of different regions by means of inter-regional comparisons of price and performance. The opportunity for innovation and emulation amongst regional companies does offer a better chance for a more dynamic and efficient industry than a centralised organisation. Economies of scale are unlikely to be prejudiced by a regionalised industry. The problems of economic and union monopoly power are more likely to be tackled by a regionalised system of independent, privatised companies.

Regulation

7. There is a need to keep the requirements for regulation to a minimum. There may be a need to provide protection for developing competition until it is able to compete on fair terms in the market-place. In general, however, a system of regulation by exception which is independent of Government is to be preferred. This reduces the bureaucratic and administrative activities of the regulatory agency, and enables it to concentrate on those cases where abuse of power is in question. Although local monopolies will still require some degree of regulation, a simpler system is more likely if the performances of a range of private companies can be compared.

Loss-Making Industries

8. We should not be mesmerised by the idea of making the business profitable before selling it. Experience has shown that on many occasions, losses grow worse with time, making disposal more difficult, whilst we believe that private ownership is more likely to achieve the business's recovery more rapidly. If the business is never likely to be profitable, then the City are the best judge of the real worth of the assets.

Waiting for Better Figures

9. In particular, sales should not be held up on the grounds that the following year's profits are likely to be better, thus leading to a higher sale price. Markets are quite able to discount ahead if profits forecasts can be proposed in a credible way. Similarly, we should not pump in subsidy in order to achieve a sell-off price that looks good in the House of Commons.

Transparency of Subsidy

10. We do need to appreciate, however, the likely consequences of privatisation in such cases where we are making an implicit decision about potential closures. The desired balance between commercial criteria and social objectives must be made explicit. This will usually require a greater degree of transparency on cross-subsidisation, in order that we can identify and decide the level of support which an uneconomic social service should receive.

Writing off Debt

11. Privatisation should not be held up through alleged difficulties with the level of debt. In many cases, the money has already been lost and it makes sense to write off a substantial proportion of the debt in order to give the new business a better balance sheet if it is then being sold to new owners.

Prime Minister [2]

MS 20/5

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ JF3552
Secretary of State for Industry

CONFIDENTIAL

20 May 1983

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

MS

Dear Michael,

BL : STRIKE AT ALBION PLANT IN GLASGOW

We provided briefing for the Prime Minister's use at Question Time in the House on 12 and 14 May about the current strike at Leyland Vehicles' axle plant at Albion, Glasgow. The most recent developments in the dispute, which could reach a critical stage by the beginning of next week, are described in the following report.

2 The strike, which has been in progress since 9 May, is against the alleged threat of compulsory redundancies to achieve the necessary reduction of 110 in hourly-paid staff at Albion, despite the fact that the management have made clear their intention of using voluntary redundancies if at all possible. I attach a copy of a letter sent to all Albion employees on 16 May by the Chairman of Leyland Vehicles, Mr Ron Hancock, which set out what was at stake, including the risk to the future of 10,000 employees of Leyland Trucks at Bathgate in Scotland and Leyland in Lancashire, whose factories depend on axles from the Albion plant.

3 On 18 May, shop stewards at Albion voted against holding a mass meeting of the workforce on 20 May to decide whether or not to continue the strike. Because Leyland Trucks is in a serious financial position and would not be able to ride out a prolonged strike at Albion, the management would have had little alternative but to send out letters early next week to all their employees on strike threatening them with dismissal unless they returned to work at an early date. However, Leyland Vehicles' management had a helpful meeting on 19 May with Mr Russell, the national official of the AUEW responsible for the north of Britain, which could lead to a solution of the dispute. It was

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agreed at this meeting that a mass meeting would, after all, be called at Albion on Monday, 23 May to discuss the dispute. Meanwhile, the threat of lay-offs at Bathgate and Leyland would be suspended. BL have told us in strict confidence that the national officials of the AEUW will try to ensure that their view that there should be a return to work will be communicated to the mass meeting. If this is agreed, Leyland Vehicles will continue to seek voluntary redundancies and if insufficient can be found, another meeting will be held between the company and national officials in 4-5 weeks' time. Everything now depends on the vote at the mass meeting. We will keep in close touch with the company and I shall write again after the vote.

4 I am copying this letter and the attachment to the Private Secretaries to the Chancellor, the Secretaries of State for Scotland and Employment and Sir Robert Armstrong.

Yours sincerely,
Jonathan Spencer

J P SPENCER
Private Secretary

Encl

Leyland Vehicles

From the office of the Chairman

Copy

Leyland Vehicles Limited
35-38 Portman Square,
London
W1H 0HQ
Telephone: 01 486 6000
Telex: 263654

16 May 1983

TO ALL ALBION EMPLOYEES

The strike at Albion has now lasted one week. No mass meeting has been called, despite the fact that the dispute now involves less than 20 redundancies. With 7 weeks still to go, the chances must be high that these can be filled by volunteers. Your convener has indicated that he sees no reason to hold a meeting - he says that there is no reason to call off the strike.

Leyland cannot allow this situation to continue. It was today announced that vehicle assembly at both Bathgate and Leyland will stop next Friday night. Next week several thousand of your fellow Leyland Vehicles workers will be laid off and losing earnings which they - like you - can never hope to make up.

One of the few non-Leyland customers for Albion axles has today told us that he will now purchase axles from one of our competitors.

As you know, there is world-wide over-capacity in the axle business and our competitors are able to offer attractive delivery dates and competitive prices to all our customers, and of course to Leyland.

I have to tell you, that today we decided to commence work to resource to other makers the axles and gearboxes Albion currently supply unless we know through a mass meeting held at the latest by Friday morning, 20 May, of a full return to work on Monday, 23 May.

I am writing to each of you to ensure that you know the full consequences of your actions.

I am not prepared to stand by and allow you to place in danger the jobs of 10,000 employees and the future of Leyland Trucks.

Cont'd.....

It is vital that a mass meeting is held at the latest by Friday and that you return to work not later than next Monday. If you do not, then Albion will have written itself out of Leyland's long-term plans with dire consequences as Albion will be closed - permanently.

Can less than twenty jobs be worth that?

Yours sincerely,

R. J. Hancock

R J Hancock
Chairman & Managing Director
Leyland Vehicles Limited

MICHAEL PA

1. MANY THANKS.

2. AGREE M.F.A. WHEN STUDY IS COMPLETED.

[initials]

3/5/1983.

10 DOWNING STREET

From the Private Secretary

Ian Gow

I saw the attached in the box.

The Prime Minister knows very well that the Varley-Marshall assurances are far from being ended; and that she could end them instanter by saying in the House that she regarded them as ended.

We have been over this ground on numerous occasions in meetings with Patrick Jenkin.

The problem is whether it would be sensible to end these assurances; when; and whether their scope could meanwhile be limited.

My letter of 17 Feb, attached, records the Prime Minister's decision that there should be a study of the matter. That is proceeding. I see no point in a meeting of the BL group

PTO

of Ministers until Patrick Jenkin's assessment of that study – and, indeed, the study itself – is with the Prime Minister.

Please consult me on these economic/industrial matters – otherwise, between us, we will waste the PM's time. Please.

Michael Scholar

Rec'd 26.4.83

MR MOUNT

cc Mr Scholar
Mr Walters

BL STRIKE AT COWLEY

The Cowley workers are expected to end their four-week strike at a mass meeting tomorrow. What if they do not? In his letter of 22 April, Mr Jenkin described the situation as "very worrying" and explained that his officials would be ready to "respond quickly to an approach from BL if the need arises". I think we should think very carefully before responding in this way, should the strike continue:

(i) It is clear that there is a substantial minority of Cowley workers opposed to the strike. Only 55% of those who attended last Friday's meeting voted against the Company's proposals for a return to work. The union's alternative proposal was "overwhelmingly" supported by a vote among 2700 workers - barely more than half the striking workforce;

(ii) The Company says that it does not think that the strike will spread to other plants;

(iii) We are told that losses are £4 million a week; we are not told how much of these losses could be recovered if the strike were to end soon;

(iv) Austin Rover's 22.4% share of the UK market in just the first ten days of April is an artificial figure which overstates the position. We should not use this as a benchmark against which to judge the loss of business by Austin Rover.

Against this background we should be in no hurry to "respond quickly" with contingency plans. Unless BL are clear that they are on their own in this and other matters, the Government's message about pay, productivity and jobs will not penetrate through to the Cowley workforce.

NICHOLAS OWEN

CONFIDENTIAL

cc N.O.

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SWIE 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

JF3308

22 April 1983

2

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

MCS 22/4

Dear Michael,

BL : STRIKE AT COWLEY

There have been the following main developments since my Secretary of State reported at Cabinet on 21 April on the strike at Austin Rover's assembly plant at Cowley.

2 Following the breakdown earlier that morning of the talks between senior Austin Rover management and leaders of the TGWU and the AUEW, Mr Harold Musgrove, Chairman of Austin Rover, decided that the workforce of the assembly plant should immediately be sent a letter informing them that the management had offered, in return for an end to the dispute:

(i) to give the Cowley Assembly Plant Audited Plant Status on 16 May, thus enabling bonuses of up to £30 a week to be earned instead of the present maximum of £18.75, if the unions co-operated in this aim;

(ii) to end the practice of clocking-off early from work on 30 May - that is, a fortnight after Audited Plant Status had been achieved; no redundancies would be involved;

(iii) to set up an enquiry into industrial relations at Cowley consisting of two management representatives from other BL Cars plants and two union representatives.

3 The meeting at Cowley this morning (22 April) was attended by about 4,500 of the 5,000 men on strike. Mr David Buckle of the TGWU put forward the company's proposals for a return to work, and they were defeated by a vote of about 55 per cent against, 45 per cent in favour. After this about 1,800 people left the meeting. The unions then put their own proposal that

CONFIDENTIAL

the strike should continue, and that Audited Plant Status at the Cowley Assembly Plant should only be introduced with the agreement of the trade unions or as a result of a ballot of the workforce. The vote in favour of this proposal was overwhelming.

4 Austin Rover had planned, because their first letter threatening dismissals unless the men returned to work on 19 April had been suspended while negotiations with the unions took place, to send a further letter today threatening dismissals unless the men reported for work on Monday, 25 April. Meanwhile, following today's mass meeting, they have received requests from Mr Moss Evans of the TGWU and Mr Terry Duffy of the AUEW for further negotiations. They are considering, in the light of this, whether to delay the despatch of the letters.

5 The situation is very worrying. There is a risk that if Austin Rover have to proceed with dismissals and try to recruit new workers to man the assembly plant, the TGWU will seek to spread the strike to Longbridge and possibly to other Austin Rover plants. The company do not think it is very likely that they would succeed, but if the strike did spread, the financial consequences would be considerably greater than the £4 million a week of lost contribution to the company's profit and loss account resulting from the Cowley dispute. Austin Rover's market share was very good in the earlier part of the month (it was 22.4 per cent of the UK market after 10 days) compared with about 18 per cent for this year as a whole. Their share for the first 20 days of April is not yet available, but for the month as a whole it is expected to show a fall. Stocks of the Maestro and also of the Rover and the Triumph Acclaim are now beginning to be tight.

6 BL do not think it will be necessary, unless the strike spreads seriously, to consider the closure of Austin Rover. They have not, therefore, sought to carry out any contingency planning with my officials against such an event. However, officials of this Department and the Treasury will be ready to respond quickly to an approach from BL if the need arises. My Secretary of State will be keeping a close watch on the strike, and will report to the Prime Minister further as necessary.

7 I am copying this letter to Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Employment and to Mr John Sparrow and Sir Robert Armstrong.

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

Ind. Pol : B.L. Pt 7

010

LEC NO

2

Prime Minister

MCS 15/4

PRIME MINISTER

MT

BL: STRIKE AT COWLEY

You will wish to have a report before the weekend on the latest developments in the strike at Austin Rover's assembly plant at Cowley.

2 Following the vote by the men at yesterday's mass meeting at Cowley, BL have appealed to Mr Moss Evans of the TGWU to intervene in the strike. This he has declined to do, and the TGWU have made the strike official. BL are still trying to contact Mr Duffy who has told me privately that if it were a strike principally involving his members he would have ordered them to return to work. However, TGWU members are in a large majority at the Cowley assembly plant.

3 In this situation, Mr Harold Musgrove, Chairman of Austin Rover, has decided that letters be sent today to all the 5,000 men on strike at Cowley warning them that unless they report for work on Tuesday 19 April they will be liable to dismissal. A copy of the text of the letter, which has been sent by the plant director at Cowley is attached. Austin Rover will assess the response to this letter on 19 April before deciding whether

subsequently to send out letters of dismissal to those who have not reported to work. There may be an interval of a few days during which strenuous efforts will be made by the management to get more men back to work.

4 The BL Board fully support the action being taken by Austin Rover, and I myself am satisfied that the management have no alternative but to try to force an early end to the strike. The strike is costing Austin Rover £4 million a week in lost contributions to the company's profit and loss account, and market share, which has been satisfactory so far this year, is likely to be affected from next week onwards. The successful launch of the Maestro has been put at risk by the dispute, and this is a major cause for concern. However, the company has not so far been blown off course financially because in January and February 1983 taken together, Austin Rover achieved a loss before interest and tax of £4.5 million - £19 million better than budgeted for this period. Their market share is also about 1 per cent better than budgeted.

5 I have discussed the situation today with Mr Ray Horrocks, the Chairman of BL Cars. He told me that Austin Rover will be embarking on a major public campaign in the next few days to persuade the men to return to work. It is possible that a mass meeting of the Cowley workforce planned for 22 April will be brought forward to 19 April. Mr Horrocks has set in hand urgent studies of alternative sites at Longbridge and Solihull for

production of the Maestro if the Maestro assembly facilities at Cowley cannot be operated by those returning to work and by freshly recruited workers. Mr Horrocks is fairly confident that the strike will not spread to the rest of Cowley or to Longbridge as there is mutual antipathy between the various plants, but this possibility cannot be excluded.

6 BL will be ensuring that West Midlands MPs and other interested parties are fully briefed over the next few days about the strike and the vital importance of an early return to work.

7 I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment and to Mr John Sparrow and Sir Robert Armstrong.

NL

NL

15 April 1983

15 April 1983

TO ALL COWLEY ASSEMBLY EMPLOYEES ON STRIKE

The situation at Cowley has now reached a point at which decisions have to be made which will have grave and far-reaching consequences, not only for the Assembly Plant, but for the Austin Rover business in Oxford.

We are not strong enough to withstand a prolonged strike without affecting the investment programme upon which Cowley's future depends. Steps must now be taken to bring about an immediate return to work by those employees who want to work and to terminate the employment of those who don't.

Let me remind you of the facts:-

1. Cowley has benefitted from over £200 million of investment in new models and facilities over the past two years. Further investment has been planned to take that figure to £300 million but this, inevitably, must now be reviewed.

2. Investment can only be justified if we operate the plant for the full 39 hours per week for which employees are paid. We can't operate competitively with a capacity reduction of half-an-hour in each 39, which is what the unofficial early leaving means.

3. We have the best model range and the best prospects Cowley has had for many years. We have even been able to recruit 1600 extra people recently who would otherwise have been unemployed.

4. Together we have been able to improve productivity, and although Cowley is not yet up to fully competitive levels, employees' earnings have increased significantly. Grade 3 production workers have seen their earnings rise since April 1980 by a massive 42% at a time when the cost of living has gone up by 25%. This extra money has come from increasing productivity and we all know that even higher bonus earning opportunities will soon be available as a result of Audited Plant Status.

5. Trade Union representatives have recognised the inevitability of the early leaving being stopped. They have confirmed in writing that they are not challenging the "blue newspaper" which states clearly:

   "employees will co-operate with measures to improve the efficient utilisation of the full working shift"

Contd/

and which also states that it:-

"supersedes all other agreements, customs and practices relating to the subjects contained within it, except those resulting from relevant agreements between the Confederation of Shipbuilding and Engineering Unions and the Engineering Employers' Federation."

The early leaving at Cowley Assembly is an unofficial practice not covered by such an agreement, and there is no basis for it continuing under our collective agreements or under employees' contractual conditions of employment.

6. Over three months of discussions have taken place on the removal of the early finish and the Trade Unions have confirmed that the proper procedures have been used fully.

7. Cowley is out of step with other plants of the Company in continuing to leave early.

8. Employees in other BL plants have acted as though they believed they could be guaranteed a future even if they took part in damaging strikes or did not co-operate with necessary productivity improvement measures. Those actions resulted in the plants having to close.

9. The Company has been flexible and has made successive offers to phase out the early leaving, but still there has not been a return to work.

A prolonged strike is in nobody's interests. It damages sales of the successful models we make at Cowley and it therefore damages employees' earnings and prospects of security in the future, as well as the obvious heavy loss of wages during the strike itself.

In these circumstances it is important you should understand clearly what steps the Company will be obliged to take if there is no resumption of work.

The Plant will open for production at normal times from Tuesday 19 April 1983. I urge you to report for work on that date. Work will be available for any employee who reports for work and all such employees will be paid from that time.

Any employee who does not report for work will be considered to have repudiated his/her contract of employment, which will then be terminated. In such circumstances employees dismissed will have no legal entitlement to payments for redundancy or in lieu of notice and no such payments will be made.

I very much hope that you will make this final step unnecessary by reporting for work on your normal shift on Tuesday 19 April 1983.

D G Dickson

D G Dickson
Plant Director

15 Apr 1983

A.F. Bd
Bud Pol

10 DOWNING STREET

From the Private Secretary 9 March, 1983

Thank you for your letter of 8 March to Tim Flesher. I am sure Mrs. Thatcher will bear in mind your warning.

W. F. S. RICKETT

R. A. Swaby, Esq.

cf?

BRASWAY P.L.C.
REGISTERED OFFICE
LEA BROOK ROAD, WEDNESBURY, WEST MIDLANDS
WS10 7LS
TELEPHONE: 021-556 1940
TELEX: 335937
REGISTERED IN ENGLAND No. 599512

From
R.A.SWABY

8th March 1983

Thank you for your letter of 8/3 to T. F—. I am sure Mrs T— will bear in mind your warning.

T.Flesher Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
LONDON.

Dear Mr. Flesher,

Thank you very much for your letter dated 4th March 1983 which I read with much interest.

My letter to the Prime Minister was written not so much because I am concerned with Leyland wishing to be competitive, but rather due to the fact that many of the people who work with me have indicated that they will be voting against the Conservative Party at the next General Election.

Yours sincerely,

RAS/MR

Tyrd Pol, BL' PX

Austin Rover Group

R4/3

B.G.

From: The Chairman &
Chief Executive

Austin Rover Group Limited
Canley Plant
Fletchamstead Highway
Coventry CV4 9DB
England

Telephone: Coventry (0203) 75511
Telex: 31567
Cables: Flywheel Coventry

The Right Hon. Margaret Thatcher, M.P.,
Prime Minister
10, Downing Street
London SW1.

MS

2nd March 1983.

Dear Prime Minister,

May I extend to you my sincere thanks for the outstanding support you gave to the new Maestro at the press photocall in Downing Street yesterday.

As you will, no doubt, have already seen, the media coverage of the event was outstanding and I could not have wished for a better 'send-off' for the new car on its launch day.

We have already announced 10,000 initial fleet orders for the car worth £50 million, and another 10,000 fleet orders - we are assured - are in the pipeline. The motoring public is also flocking to our dealer showrooms and we are very confident that Maestro, like Metro, will prove to be a winner.

Once again, many thanks for your invaluable support.

Yours sincerely,

Harold Musgrove

HAROLD J MUSGROVE

HJM/MRH

A Managing Agent for BL Cars Limited

Registered Office:
35-38 Portman Square London W1H 0HQ
Registered in England No. 1595268

1.3.83

81423 MARVEH G

TLX TO HAROLD MUSGROVE - MAESTROLOGER SUPREME, CHAIRMAN

Ind Pol

CC : THE PRIME MINISTER
THE SEC OF STATE FOR INDUSTRY
SIR AUSTIN BIDE - CHAIRMAN BL PLC

MANY CONGRATULATIONS TO ALL AT AUSTIN ROVER ON GIVING BIRTH TO ANOTHER OUTSTANDING WINNER - AND OUR MOST IMPORTANT ONE YET AS IT IS THE KEY TO OUR MUTUAL FUTURE PROSPERITY.

OUR BRITISH BABY MAESTRO IS CLEVERLY CONCEIVED AND ENGINEERED AND IS ALREADY ATTRACTING UNPARALLELED CUSTOMER INTEREST AND ORDERS. IT WILL GROW IN NUMBERS VERY FAST AND BE THE CULT CAR FOR 1983 AND BEYOND IF TOGETHER WE CONTINUE TO CARE FOR IT AND BUILD ON ITS WINNING WAYS AND STRENGTHS WITH PROFESSIONALISM ENTHUSIASM AND PRIDE.

YOUR DEALER NETWORK IS RIGHT BEHIND YOU TO ENSURE THAT MAESTRO ACHIEVES THE SUCCESS IT DESERVES AND IS PLEASED WITH THE STEADY BUILD UP IN PRODUCTION AND THE DEDICATION TO QUALITY.

WELL DONE TO YOU AND ALL YOUR TEAM FOR ALL THE BLOOD SWEAT AND TEARS WHICH HAVE GONE INTO CREATING THIS WONDERFUL NEW BEGINNING - THIS MASTERSTROKE FOR BRITAIN.

MICHAEL MARSHALL
CHAIRMAN
BL CARS DEALER COUNCIL

81423 MARVEH G

27582 CABOFF G

81423 MARVEH G

WEKLL IF OSCAR ILL DOWN TOOLS NOW
2 READY TO SWITCH NOW KK RHRGRGR

27582 CABOFF G

Prime Minister

81423 MARVEH G
1.3.83

TLX TO: THE PRIME MINISTER
10 DOWNING STREET

MCS 1/3

THANK YOU FOR SUPPORTING BL AND FOR YOUR PERSONAL WORDS OF SUPPORT TO THE MAESTRO LAUNCH.

THE CAR WILL UNDOUBTEDLY BE A WINNER AND I AM PLEASED TO ENCLOSE A COPY OF A TELEX WHICH I HAVE TODAY SENT FROM THE AUSTIN ROVER DEALERS TO HAROLD MUSGROVE - MAESTROLOGER SUPREME - AND TO SIR AUSTIN BIDE.

THE NATIONAL INVESTMENT IN BL WILL BE REPAID MANY TIMES OVER - BALANCE OF TRADE, EMPLOYMENT, TECHNICAL LEADERSHIP, THE UPLIFTING OF NATIONAL QUALITY AND PRODUCTIVITY STANDARDS AND CONSEQUENT DEVELOPMENT OF NATIONAL PRIDE AND COMPETITIVENESS QUITE APART FROM BL'S OWN FUTURE PROFITABILITY - IT LIKE OUR MAESTRO IS A MASTERSTROKE FOR BRITAIN. DELIGHTED TO LEARN OF YOUR CONTINUING SUPPORT SO THAT BL AND ITS NETWORK CAN ''DEVELOP THE TOOLS TO FINISH THE JOB'' AND THEREBY CONSOLIDATE THIS VITAL INVESTMENT

MICHAEL MARSHALL
CHAIRMAN
BL CARS DEALER COUNCIL

81423 MARVEH G

FILE

DSG

SUBJECT

cc Master

CC: HMT
D/Emp
D/Trade
Min/State, Industry (Lamont)
CO
CPRS
SO

bcc: J. Vereker.

10 DOWNING STREET

From the Private Secretary

17 February 1983

Dear Jonathan,

BL's 1983 CORPORATE PLAN

The Prime Minister held a meeting this morning about BL's 1983 Corporate Plan. The Chancellor of the Exchequer, your Secretary of State and the Secretaries of State for Employment and Trade, the Minister of State, Department of Industry (Mr. Lamont), Sir Robert Armstrong and Mr. Sparrow were also present.

Your Secretary of State said that after prolonged discussion last year the Government had reached agreement with the BL Board on privatisation and the further funding of the business. This agreement was set out in Sir Michael Edwardes' letter to your Secretary of State of 4 August 1982, and had figured in BL's half-year report. Nothing had happened since then which would make it impossible for the Government to deliver its part of the bargain. He recognised, as the Chancellor pointed out in his minute of 7 February, that the Government's agreement to provide up to £150 million equity funding was subject to approval of the 1983 Corporate Plan, and that the need for this funding would have to be demonstrated. He fully intended to scrutinise rigorously the case which BL would put forward for these funds. As he saw it the difference between his position and the Chancellor's was a narrow one: no-one was suggesting that the 1983 Corporate Plan should be rejected. He also proposed that there should be a fundamental review of the Austin Rover group, on the lines of that proposed in paragraph 5 of Mr. Sparrow's minute to the Prime Minister of 14 January. The fact was that Austin Rover was unlikely to generate enough cash to fund the investment for new models. This was the background to the current discussions with Honda, who also saw a partnership as being in their self interest. Recent indications, however, were that the discussions with Honda were not going as well as they had been.

In discussion, it was argued that the 1983 Corporate Plan represented a deterioration on the 1982 Corporate Plan. It was not right to say that BL as a whole was still on the course towards profitability which had been plotted in previous years' Plans. There had been substantial slippage in expenditure in recent years, and it was now clear that a commercial profit would not be made until 1985 at the earliest. This represented a slippage of 12 months from the corresponding forecast in the 1982 Corporate Plan. If this expenditure shortfall had occurred

/ elsewhere

NR

elsewhere in the public sector the funds would have been taken back to the Treasury, and could not have been carried forward. There was every reason to believe that BL had again over-estimated the amount of cash they would need to finance the projected activity set out in the Corporate Plan. The assumptions underlying the Plan, which were settled around the middle of 1982, had in important respects proved to be pessimistic: in particular their forecast of the United Kingdom car market this year and the recent exchange rate developments, favourable for BL and unfavourable for their competitors. Against this background it would be wrong to tell BL that they could draw a further £100 million or £150 million as an entitlement. This would merely encourage them in the expectation that they would be able to fund further losses, and to finance further Corporate Plans in which the date of a return to profitability was steadily pushed back into the future. Against this, it was argued that cash control at BL had been tight, so that approved expenditures had been pushed into forward years. The fact was that these sums, including the equity funding of up to £150 million, had been promised to the Board, and there would be considerable public embarrassment if the Government went back on its word. Although the general environment in which BL traded had undoubtedly improved, they faced considerably intensified competition in the United States market, and it was simply not possible to say now that the equity funding would not be needed. The right course would be to approve the 1983 Plan, together with the additional equity funding, but to make it plain that the improvement in trading conditions would be taken into account, along with other factors, in assessing whether the additional equity funding could be drawn down. It should not be forgotten that BL had traded in very difficult circumstances in recent years, and that the Company had achieved a remarkable turn-around in its performance - notwithstanding the very considerable difficulties that still lay ahead.

Summing up the discussion, the Prime Minister said that it was agreed that the 1983 Corporate Plan should be approved, and that BL could be told that such part of the £150 million equity funding envisaged in previous Plans for the period after March 1983 as was not offset by estimated proceeds from the sale of minority interests, would be available to BL, if they could demonstrate, in their changed trading circumstances, that it was needed. A full review of the options open to the Austin Rover group should be undertaken, on the lines set out in Mr. Sparrow's minute. The letter communicating this decision to Sir Austin Bide would need to be drafted with great care, and should be cleared with the Chancellor of the Exchequer. It should be made clear to BL that the Government would look very closely at the 1984 Corporate Plan, in particular to see whether the date for a return to profitability was further set back. The burden of proof, as to the need for the further equity funding, should be placed firmly with BL: the aim was to keep them on a tight rein. Finally, it was not satisfactory that the Company should be able to increase its borrowings against the Varley-Marshall assurances indefinitely and without limit. Ideally, there would be no further increase in exposure; at the very least, a study should be

/ produced

produced as soon as possible to consider how the Government's exposure under the Varley-Marshall assurances could be limited or reduced.

I am sending copies of this letter to the Private Secretaries to those present at the meeting, and to Muir Russell (Scottish Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

Ind Pol

PRIME MINISTER

BL Meeting at 0930

S/S Industry, Employment, Trade, Chancellor, Mr. Sparrow & Sir R. Armstrong.

Issue: whether to approve the BL 1983 Corporate Plan

: whether the extra £100m should be made available (breach of faith if not?)

The story starts with Patrick Jenkin's minute of 11 January (Flag A).

You asked for Arthur Cockfield's comments (19 Jan, Flag B).

See now the Chancellor's latest minute (7 Feb, Flag C).

MCS

16 February 1983

C

vcc JV

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BL's 1983 CORPORATE PLAN

I have seen Patrick Jenkin's minute to you of 3 February but I am still not persuaded that we should provide BL with the extra £100 million they are seeking. In particular, I cannot agree that to refuse this further funding request would be a major breach of faith by the Government.

2. You will recall that when Michael Edwardes wrote to Patrick on 4 August he offered BL's firm commitment to certain specific objectives on the basis that:

> "subject to approval of the 1983 Corporate Plan, the Government agrees to provide, in addition to the £990m already committed, such part of the £150m equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests ..... and which can be demonstrated to be needed to fulfil the Plan"

The words I have underlined make it quite clear that the Government's agreement to provide additional funds was qualified and far from being an unconditional commitment.

3. Similarly, the fact that we did not compensate BL for the unexpected strength of sterling in 1981 does not seem to me to constitute any argument against adjusting their funding for 1983. On the contrary, it is clear that ~~the 1982 Plan was capable of~~ BL's previous plans had enough slack
/~~absorbing~~

in them to absorb ~~absorbing~~ increased losses of £95m in 1981, ~~when~~ as a result of deteriorating economic conditions ~~were deteriorating.~~ This suggests to me that the company should be well able to manage without funds of a similar size when the economy is performing better than their current Plan estimates.

4. I agree that we want to avoid any public argument with BL over the latest Plan. But the company are as much aware of the damaging effect this could have on confidence as we are. I certainly do not feel that concern about provoking an adverse reaction from BL should stop us from challenging the company about their need for a further £100m, on the basis I have set out above.

5. Incidentally, I cannot help being dismayed at the length of time the whole process has taken. The Corporate Plan currently under discussion is based on assumptions which were discussed with officials last May. It is little wonder that we find difficulty in reaching agreement with BL now when the Plan on which their proposals rest was drawn up so long ago.

6. Finally, on a separate point, I see that Patrick has suggested that officials should meet to consider ways of reducing the Government's exposure under the Varley-Marshall assurances. I am content for a study of this kind to be undertaken.

7. I am copying this minute to those who have received the previous correspondence.

G.H.

G.H.
7 February 1983

Ind Pol : BL : Pt 7

CONFIDENTIAL

Ind Pol.

JH 778

Prime Minister (2)

You have these papers I think.

MCS 4/2

PRIME MINISTER

BL's 1983 CORPORATE PLAN

I have seen Geoffrey Howe's minute to you of 31 January commenting on my recommendation that we should approve BL's 1983 Corporate Plan and the associated funding requirement.

2 To do as Geoffrey suggests would in my view be a major breach of faith on the part of the Government. After prolonged discussion last year we reached agreement with the BL Board on privatisation and the further funding of the business. This agreement was set out in Sir Michael Edwardes' letter to me of 4 August 1982. Nothing has happened since then which would make it impossible for us to deliver our part of the bargain. I doubt whether Sir Austin Bide and the rest of the Board would have agreed to serve if they had known that the ground rules were to be changed five months later.

3 There is no question of any commitment to giving BL the money unnecessarily. BL always have to obtain my approval and that of the Treasury before drawing any tranche of equity funding, and have to demonstrate their need for the money. If their cash outflow were not as high as expected in 1983 and 1984, they would

simply not qualify for as much as an extra £100m in equity.

4 If we are to follow the logic of Geoffrey's argument about the exchange rate, we should compensate BL for the fact that sterling was higher than they had planned in 1981. Examination of BL's 1982 Corporate Plan showed that the impact of this was to increase BL's losses in 1981 by about £95 million. Other economic factors too, such as the collapse in the market for trucks, went against them. However, BL very properly neither asked for nor received any compensation.

5 There is no doubt that if recent currency changes represented a permanent change in the real exchange rate, BL's competitiveness in the longer-term would be significantly improved; and the prospects for viability and privatisation of the Austin Rover Group would be much better than BL envisaged in their Plan or than Arthur Cockfield predicted in his minute. But the permanence of the change, and its effect on real competitiveness in the longer term, cannot yet be predicted with any reasonable confidence; neither can the actual cash effects in the shorter term given the particular mix of parity changes.
The figure of £220m over 2 years, which the Chancellor cites, is a crude rule of thumb figure taking no account for example of consequential changes in expectations for domestic growth and inflation.

6 The last point I would make on this is that the clearing banks have made very substantial loans to BL in the past two years in the expectation that the Government would provide its share of the funding required by BL. Their willingness to provide further loans would be greatly affected if there were to be a public disagreement with BL over this Corporate Plan which led them to doubt the Government's willingness to bear their share of BL's future funding needs.

7 If colleagues agree with this view, I propose in conveying our approval of the Plan to say (in addition to the points in my minute of 11 January) that I wish before any announcement to discuss with the Chairman the basis on which the Government's funding will be available, bearing in mind that BL would regard an outright decison to deny them the final £100m as effectively turning down the Corporate Plan as a whole. They might well then argue that they lacked the necessary financial backing to carry out the physical programmes outlined in the Plan, such as the new executive car with Honda. I would, therefore, propose that the balance of the £990m, and up to a maximum of £100m extra, would be available to be drawn on evidence of need by no later than the end of 1984, after which no further funds would be available; that in the light of recent currency changes we as yet remain to be satisfied that the £100m will in the event be needed to finance the Plan as approved; and that the company's funding requirements will be kept under close review.

8 I note Geoffrey's comments on the difficulty of finding ways of reducing HMG's liabilities other than through privatisation. Frankly, privatisation is not possible at present on Austin Rover's existing balance sheet, and will become even more difficult if the balance sheet deteriorates further. But the Government guarantees cannot be withdrawn suddenly. I agree that there are very serious practical difficulties in reducing our exposure from the Varley-Marshall assurances but I cannot see any reason for not making an attempt. I suggest my officials should get together with Treasury officials (and perhaps the CPRS), to discuss how this work might be tackled.

9 I am copying this to the recipients of the Chancellor's minute.

CVarley

(seen and approved by) P J

3 February 1983

Department of Industry

Ind Pol,
BL, pt 7

10 DOWNING STREET

(1)

Prime Minister

BL Corporate Plan

You asked for Arthur Cockfield's comments. These are at flag A.

These have stimulated comments from the Chancellor (flag B) and Patrick Jenkin (flag C). There is also a minute from George Younger (flag D).

The Chancellor disagrees that the extra £100m should be made available; so does Lord Cockfield

(PTO)

(although I do not think

his history is quite right).

I see no alternative but a

meeting to sort out the government's

attitude to the Corporate Plan.

Agree? Yes MT

MCS 1/2

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BL: 1983 CORPORATE PLAN

Patrick Jenkins' minute of 11 January invites us to approve BL's 1983 Corporate Plan and the associated funding requirement. Norman Tebbit, Arthur Cockfield and George Younger have already commented and Patrick Jenkin has responded to Arthur Cockfield's comments. While I accept Patrick's account of the history of the request for £100 million, I do sympathise with the general points about BL's past performance which Arthur makes.

2. I myself wish to comment on 3 main issues: prospects, funding and privatisation.

Prospects

I agree broadly with the assessment of the Plan made by the Official Group. The 3 smallest groups - Unipart, Land Rover and Jaguar - are profitable and have reasonable privatisation prospects. The major problems lie with Leyland Trucks and Austin Rover. I remain doubtful about Leyland Trucks' recovery prospects. Nevertheless, I think that having decided last year to support the recovery plan, we should stick with it. The group's testing time will come over the next 18 months as its new models are launched. We must wait to see how these are received.

3. As Arthur Cockfield says, Austin Rover's prospects are dismal. BL themselves have candidly admitted that the projected results do not hold out a prospect of viability. The best they are offering is that after the current funding request, Austin Rover will not need

further cash from the Government. However, the Government's exposure will continue to increase because of the implicit guarantee attached to Austin Rover's borrowing.

4. We cannot support Austin Rover in this way indefinitely and I have seriously considered whether the right course is to face up to immediate closure. However, I have concluded that this would not be the right time. The LM 10 will be launched in March and the LM 11 next year. The money to develop them has already been spent. It makes sense to see how the new models perform in the market before we reach a firm view about the group's prospects. I note that BL intend to review ARG in advance of the 1984 Corporate Plan and in the light of this review we shall have to be ready to take a fresh look at the group.

5. This leads me to conclude that we should endorse the physical plans that BL have embodied in their Corporate Plan.

Funding

6. BL's estimate of their cash needs reflects a wide number of economic assumptions about the next 5 years. The Plan assumes a total cash outflow in 1983 and 1984 of £532 million. BL requests that the Government should make £250 million available in 1983-84 towards this outflow. First, from the £990 million which we agreed in January 1981 to provide in respect of the 1981-82 and 1982-83 financial year, there is £150 million which BL do not expect to spend in the current year and wish to carry over. Second, there is a new requirement for £100 million. The residual amounts not covered by the Government would be borrowed on the market but with an implicit Government guarantee.

7. In considering the funding request, we have to look at the reasonableness of the company's cash-flow forecast. I believe that BL have over-estimated the amount of cash they will need to finance the physical plans set out in the Corporate Plan because I doubt the

underlying economic assumptions they have made. These were settled around the middle of last year and at that time seemed fairly realistic but the economic environment in which BL are likely to be operating over the next few years has radically changed since then.

8. I have 3 specific developments in mind. BL's assumptions about average earnings growth for manufacturing industry now look excessive, while their forecast of the UK car market this year now seems pessimistic. Thirdly, recent exchange rate developments make BL's earlier assumptions a highly suspect basis for a cash-flow forecast. Sensitivity analysis of the impact of an effective rate 10 per cent lower than that assumed in the forecast showed an improvement in BL's profit before interest and tax of £220 million in 1983 and 1984. The rate has already fallen this far.

9. These changes are so substantial that they must throw doubt on the cash forecast in the Corporate Plan. I accept that we are already committed to providing the £150 million which has slipped over into 1983-84 from the £990 million we originally agreed. But I believe that the physical plans set out in the Corporate Plan can be achieved without an extra £100 million and I do not think we should make it available.

Privatisation

10. I endorse Patrick Jenkin's view that BL have, as required, presented a strategy which offers visible progress towards privatisation in the next two years. I have a few comments on the individual proposals.

11. On Unipart, my instinct is to prefer a merger between the company and Quinton Hazell. I suspect it would be difficult to sell Unipart to any other interest. It would be important to secure a private

sector majority holding in the merged company as soon as possible, while BL might perhaps be pressed to accelerate the negotiation of the arm's length contracts to secure earlier Unipart privatisation.

12. I share Patrick's view that the proposed Leyland/Land Rover linkage could be detrimental to Land Rover privatisation and agree that BL should be told to desist from any arrangement other than setting up a simple holding company.

13. Jaguar seem to be the best privatisation prospect. I accept that in the interest of securing a fair price for the company, we should plan on the basis of privatisation in 1984 or 1985. But I suggest that even in advance of that, we should urge BL management, in conjunction with their merchant bank advisers, to take early soundings about possible purchasers amongst British manufacturers, especially those in the engineering industry. I should very much prefer to keep Jaguar's ownership in UK hands, although I do not rule out foreign ownership of a minority stake.

14. Finally, I note Patrick's suggestion that a study should be put in hand to explore ways of reducing HMG's existing exposure from the Varley-Marshall assurances. It would be a very satisfactory achievement but, apart from privatisation, I cannot see how it could be done. Perhaps Patrick could expand a little on what he has in mind?

15. I am copying this minute to Patrick Jenkin, George Younger, Norman Tebbit and Arthur Cockfield and to Sir Robert Armstrong and John Sparrow.

(G.H.)

31 January 1983

Ind Pol,
BL, Pt 7

le 52

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER 28 January 1983

BL's CORPORATE PLAN

In his minute of 11 January, the Secretary of State for Industry has sought our agreement to approving BL's Corporate Plan for 1983 and the associated funding which the company has requested.

I agree with Norman Tebbit's view that BL has made reasonable progress in 1982 against a difficult background, particularly in the trucks market, to which its Scottish plants are exclusively devoted. While the Leyland Group results for 1982 are disappointing, the improvement planned for this year does not by any means seem unattainable. The prospects for Austin-Rover are obviously crucially dependent on the success of the LM 10 and decisions about BL's future in this sector cannot be taken until the results of the LM 10 launch are clear. In my view, therefore, the Plan represents the best we can expect in the circumstances and I would therefore support approval being given to the Plan.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Industry, Employment and Trade, Mr Sparrow and Sir Robert Armstrong.

Approved by the Secretary of State
and signed in his absence

28 JAN 1982

√ JV

JF2493

CONFIDENTIAL

PRIME MINISTER

BL's 1983 CORPORATE PLAN

I feel I should comment on the Secretary of State for Trade's minute to you of 19 January on this subject.

2 I recognise the point which Arthur Cockfield is making in the first part of his minute on the provision of funds by the Government, but I think he has perhaps over-compressed the history. This is set out in full in the first four paragraphs of the report by officials which was attached as Annex A to my minute to you of 11 January. In particular, we did not tell BL last year to find the whole of the £150m funding which they wanted in the financial year 1983-84 by selling off part of the business. As part of the understanding on privatisation which we reached with them last August, BL undertook not to seek further funds after March 1984 provided we gave them such part of the £150m envisaged in previous Corporate Plans as was not offset by the proceeds of privatisation in 1983-84. As I explained in my minute, BL have reduced their requirement to £100m in anticipation of these proceeds, which will not be received until later. They have not said that they would like the remaining £50m as well if the proceeds of privatisation fall short of the full £150m. BL gave a public commitment in their half-year statement last September that the final £150m of Government funding would be significantly reduced as a result of privatisation, thus bringing this funding to an end earlier than

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expected in previous Corporate Plans. I intend to hold them to this commitment. A copy of the relevant part of the half-year statement was attached to Sir Michael Edwardes' letter of 4 August 1982, which was at Annex B of my minute of 11 January.

3 I would not disagree in substance with the other points in Arthur Cockfield's minute, and do not therefore propose to comment on them, but I felt that the tone of his minute was unduly grudging towards BL given that the company has made some progress in a very difficult situation.

4 I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland, Trade and Employment, to Mr John Sparrow and to Sir Robert Armstrong.

PJ

P J

26 January 1983

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Ind Pol Future of BL Pt 7

Ind Pol
Future of BL
Pt 7

FILE

IND POL

PRIME MINISTER

The Company Secretary of British Leyland telephoned yesterday, to ask whether you would be prepared to do for the launch of the Maestro, on or about 1 March, what you did for the launch of the Metro. He said that you had enormously helped in the Metro launch, and that the Maestro was probably even more crucial to their recovery than the Metro had been. The Maestro would be the first all-British designed newcomer to the mid-car sector, for a number of years.

What he had in mind was that you should take delivery of a Maestro for your own personal use, or for No.10's use, free of charge, for a number of weeks. Patrick Jenkin would similarly have one, and would probably be driven around in it instead of in his usual Government car.

This seems to me a good idea in principle (David Wolfson and Bernard Ingham concur). The taxpayer has a great deal at stake in BL and in this new car. But it would be a totally unsuitable car for you to ride around in, and it seems very artificial for it to be delivered for your use if in fact you have no use for it. If, however, you are prepared to be associated with this new launch, (you have already sent a message of support for the launch), perhaps the best thing would be for Bernard Ingham to arrange, with BL, photographs and press coverage, of your looking at, and perhaps driving down the street. Patrick Jenkin's Maestro, when he arrives here for some meeting.

Agree to an arrangement on these lines?

M. C. SCHOLAR

25 January, 1983

CONFIDENTIAL

13. cc J.V.

Prime Minister

BRITISH LEYLAND

I comment below on the Secretary of State for Industry's minute to you of 11 January.

1. Provision of Funds by Government

BL are asking for £250 m for 1983-84.

Of this £150 m may be described as "legitimate" in the sense that it is the unspent balance of the £990 m agreed in 1981.

But the extra £100 m is the familiar story of B.L. winkling a bit extra out of the Government by the constant drip method. They start by "envisaging" it without actually asking for it. Then last year they asked for it and we told them to find it themselves by selling off part of the business. They say that they can't do that just now : but they will take £100 m instead of £150 m and they will make it good out of the proceeds of privatisation on an "as, when and if" basis. They then generously offer not to ask for any more money after 31 March 1984 but provide themselves with an escape hatch by saying they would like the remaining £50 m as well if the proceeds of privatisation fall short of the full £150 m. I do not think we should fall for this. There is a suggestion that this additional money may not be required in 1983, in which event it would be "rolled over". In other words B.L. are trying to "bank" this £150 m. We never agreed to give it to them in the first place : and when they persisted we said it had to come out of the proceeds of privatisation. They now just want it without strings.

Contested by Patrick Jenkin and the Treasury MPs

2. 1982 Results and the Outlook for the future

The position once again is one of hope deferred. True the loss in 1982 before interest is little more than half what it was in 1981; and it is marginally less than estimated a year ago although that in part is an illusion because of the large contingency items included in the total forecast figures.

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The more serious point however, is that total profits over the next four years (1983 to 1986) are now projected at £125 m less than estimated a year ago. Much of this deterioration is due to Unipart which is no longer expected to produce the dramatic improvement anticipated a year ago. There also appears to be a substantial deficit - as opposed to a profit - on "Central Services" which is not explained.

The Individual Sectors

Three groups - all unfortunately small - seem to offer real hope. They are Jaguar, Unipart and Land Rover. Leyland, which has been in deep trouble, is forecast to show an enormous and dramatic improvement. Indeed by 1985, Leyland is forecast to produce profits of £128 m before interest, half of the total group profit. My reaction is to say that I will believe it when I see it. The Austin Rover group (now excluding Jaguar) is not estimated to come into profit - even before charging interest - until 1985 and even then the profits are very small. It is the Austin Rover group with its immense negative cash flow which is primarily responsible for BL's financial troubles and will continue to be so.

3. Privatisation

There is no hope of privatising the residual Austin Rover group, not in the foreseeable future at any rate. The best that could be hoped for is some collaborative arrangement. But we ought to push ahead as fast as possible with privatising Jaguar, Unipart and Land Rover. I don't think that at this stage we could set a precise date - events will largely determine that : but it should undoubtedly be in 1984 or 1985. This means a vigorous and continuing management effort to ensure that everything is tee'd up ready to go the moment the opportunity presents itself. Leyland will answer itself. If it comes round we should privatise it. Otherwise it will go under. There is incidentally a real question mark overhanging Unipart. If the Austin Rover group fails, the viability of Unipart must be open to question.

It is little short of a tragedy of course that the money realised from privatisating the viable parts of the business is likely to be absorbed by the insatiable maw of the residual Austin Rover group : rather than enuring to the benefit of the taxpayer.

4. I am copying this to the recipients of Patrick Jenkin's minute.

A.C.

LORD COCKFIELD

Department of Trade
1 Victoria Street
London
SW1

17 January 1983

Ind. Pol : BL Pt7

Ind Pol: BL wish MCS 24/1.

CONFIDENTIAL

cc JV

Prime Minister

Lord Cockfield will let you have his comments.

MCS 18/1

PRIME MINISTER

MS

BL'S CORPORATE PLAN

In his minute of 11 January the Secretary of State for Industry invited us to approve BL's Corporate Plan for 1983 and its associated funding requirement.

I think it is fair to say that this Plan represents essentially a holding operation. BL have done well in 1982, in extremely difficult conditions, but Austin Rover and the Leyland Group are going to have a hard struggle this year to build on the foundations that have been laid. We must all hope that the LM10 enjoys a Metro-style success, and that the Leyland Group will fulfil expectations. If not, we shall have to face some unpleasant decisions at the end of the year.

It follows that I am in favour of our approving the Plan now. It is a cause for considerable concern that Ford and Vauxhall are to no mean extent the gateways through which foreign cars are brought into the UK market and account for the recent surge in imports. The collapse of Austin-Rover or its use by a foreign owner would lead to a further large increase in imports and further severe problems for the Midlands component manufacturers. I am sure Patrick Jenkin will bear this in mind and agree that in addition to urging on the disposal of Unipart, Jaguar and Land Rover, and the Leyland Group as well, if all goes well there, officials should be very closely associated with the Horrocks review of Austin Rover, so that every effort can be made to avoid that company's being left as the unviable rump of the group.

SECRETARY OF STATE FOR EMPLOYMENT

I am copying this minute to the Chancellor of the Exchequer and the Secretaries of State for Industry, Scotland and Trade, and also to Mr Sparrow and Sir Robert Armstrong.

NT

17 January 1983

Ind Pol : BL : Pt 7

VSC JV
2 pps Ind Pol

CONFIDENTIAL

Qa 06217

To: PRIME MINISTER

14 January 1983

From: JOHN SPARROW

BL's 1983 Corporate Plan

1. The Secretary of State for Industry has written to you and other colleagues seeking agreement for approval of BL's 1983 Corporate Plan and the associated funding requirement.

2. The CPRS participated in the Officials' Group which reviewed the Plan and generally concurs with the conclusions that recommend its acceptance.

3. The operating plan proposed by BL is satisfactory. Their new model programme is on schedule and they are proposing further improvements in productivity which, on their recent past record, they should achieve - and which should bring them up to European standards. The major vulnerabilities are in the market. Achievement of the volume cars plan depends on successful launch and consumer acceptance of the LM10/11 and achievement of the Leyland Trucks Plan depends on recovery of market share when renewal of their truck range is completed.

4. The principal problem exposed is that for the first time the BL Board are admitting that the volume cars business, Austin Rover Group Holdings (ARGH), is unlikely to be viable by itself in the longer term. The business will simply not be generating enough cash in the mid-eighties to finance the development of the new models required for the end of the decade. And privatisation of the profitable, cash generating, subsidiaries such as Unipart and Jaguar will more clearly expose this problem. It follows that privatisation is not the key issue brought out in the BL Plan. BL have produced a privatisation strategy, but further work needs to be done, and I see little mileage in pressing BL further in the short term. If you do decide to press the point, the earliest date of any significant sale would be well into 1984.

5. For ARGH, the Department of Industry see good prospects of further collaboration with Honda, but I think it has to be recognised that this may be on Honda's terms. There is a need for a full review of the options open to ARGH. BL are proposing such a review and I feel that Ministers should insist that this is completed as soon as possible, with input from the Department of Industry if necessary. It should examine a full range of options from closure of ARGH to continuation of the status quo (i.e. assuming collaborative deals prove impossible). It seems best that such a review of options be completed in sufficient time for Ministers to review it and give guidance to the BL Board for preparation of their 1984 Corporate Plan.

6. Whilst the Plan does not show it, one has to suspect that if the Leyland Trucks business fails to meet its Plan - and there is considerable risk that it will not - a similar, but smaller, unviable rump will be exposed. However, a solution to this problem is less urgent than the question of determining a future for volume cars.

7. I am sending a copy of this minute to Sir Robert Armstrong.

B.

CONFIDENTIAL

I should like to hear Sir Arthur Cockfield's views. He is used to dealing with corporate plans. MT

Prime Minister (1)

Essentially, you are being asked to agree that things run on as they have — including the Varley/Marshall assurances, the slow progress towards privatisation, collaboration etc. No new government money but an increase in the contingent liability to £2.1b by 1987 (para 5.11). Agree Mr Jenkin's conclusion (para 5 and Annex C)?

MLS 15/1

MR SCHOLAR

cc Mr Mount
Mr Walters

BL's 1983 CORPORATE PLAN

The Government has agreed to a massive level of support for BL; bygones are bygones, and BL must now be given a chance to show what they can do with it. It seems to us that BL have prepared a good operating plan for 1983, which gives the best chance of keeping further losses to a minimum. ?

But we retain the doubts we have always had about the chance of BL ever breaking even. It seems to us virtually certain that in a few years BL will be coming back to the Government for more money; and we note that for the first time the BL Board themselves recognise that the Austin Rover Group will never be viable. The forecast share of the market, particularly for trucks, is optimistic; and BL's competitive position is not strong enough on its own: the LM10 and 11 cannot produce enough cash to finance the next generation of cars, including the successor to the Metro.

The only way out of this remains a major restructuring to bring BL into a close relationship with an efficient and probably Japanese car manufacturer. Then it could benefit from all the economies of scale in research, production and marketing that it at present lacks. Mr Jenkin recognises this, and proposes (Annex C to the documents he has sent to the Prime Minister) a review by Ray Horrocks of possible changes which might "over time" reduce the Government's exposure. This seems to be intended to feed into the next corporate plan, ie in 1984.

We think that may be too late. If the Prime Minister agrees you could reply to Mr Jenkin that, while she is ~~content with the corporate plan~~ thinks the corporate plan not unreasonable, she notes that no solution to the losses on volume cars is in sight; and she therefore hopes that the

CONFIDENTIAL

prospects for collaboration with foreign companies such as Honda will be pressed forward urgently.

13 January 1983

81-2 £620 - (450 335) [Sp. 520] ∴ £100 - to 45 good 52

82-3. £370 - (Sp 260)

A

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£990 [800] Not until 1985 - commercial profit - i.e. full year's slippage. Level of profit/loss - only one element. - charges = [illegible] - depreciation.

JU679 (£190m. + £150)

PRIME MINISTER

1987.

BL's 1983 CORPORATE PLAN

83-4-5 - to continue to fund losses.

An interdepartmental group of officials, under the chairmanship of Mr Gordon Manzie, a Deputy Secretary in my Department, has been studying BL's 1983 Corporate Plan. The Treasury, the Scottish Office, the Department of Trade, the Department of Employment and the CPRS participated in the group. A copy of ... their report is attached at Annex A to this minute.

2 The review of the 1983 Plan has taken place against the backcloth of the understanding on privatisation and the future funding of BL which was reached between the Government and the BL Board last summer and was recorded in Michael Edwardes' letter to me of 4 August (a copy is at Annex B to this minute). In essence, BL undertook with our approval to present in the 1983 Plan a strategy for full privatisation which offered visible progress in that direction within the next two years; and not to seek further Government funds for the maintenance of the business after March 1984, subject to agreement by the Government to provide not only the remainder of the £990 million of equity capital already agreed but also such part of the further £150 million previously envisaged as was not offset by the estimated proceeds of privatisation in the financial year 1983-84. In the event, BL have reduced their requirement to £100 million in anticipation of these proceeds, which will not be received until later.

3 The Manzie Group's conclusions, which were unanimous, are set out on pages 70-77 of the report. Briefly, the main ones are that BL as a whole is still on the course towards profitability which has been plotted in previous years' Plans, although prospects and performance vary between the different businesses;

and that the privatisation strategy included in the Plan, although its detailed implementation has not yet been worked out, presents reasonable prospects for visible progress towards privatisation in the next two years. The Group recommends that the 1983 Plan should be approved, and that BL's request that £100 million of equity should be made available in the financial year 1983-84, over and above the £150 million or so of the £990 million previously agreed which is likely to be rolled over to that year, should be agreed. Although provision is sought for £250 million in 1983-84, there is a possibility that the experience of the last two years will be repeated, and that some of this will slip into 1984-85. I would not regard this as a problem. Because of the timetable for drawing up the public expenditure programme, no PES provision was made for these amounts, which will have to be found from the Central Reserve. I did, however, alert the Chief Secretary to this expected requirement during my PES bilateral with him in September.

4 I agree with the advice which officials have given in the report. However, serious problems have still to be dealt with in the Leyland and Austin Rover Groups, and the Government will clearly need to monitor closely their performance and prospects in 1983. We shall also need to keep closely in touch with progress towards implementation of the privatisation strategy for all the businesses. In the case of Austin Rover, there are no prospects of full privatisation on present projections of the company's balance sheet. This is not because of a deterioration in the company's performance or prospects but because, as we have always known, the volume cars business cannot be viable on its own in the near future. Progressive extension of the collaboration with Honda, preferably with the introduction of a minority equity stake by Honda, offers the best chance of reducing and eventually ending Austin Rover's dependence on the Government. However, I think it is important that, as part of the review of the options for this business which is to take place in the coming months, BL themselves and Government officials should study whether there might be any ways in which the Government's exposure under the

Varley/Marshall assurances to creditors could be first limited and then reduced as the business returns to profitability. Though I am by no means sure that such means can be found, I have asked that a study should be put in hand. I would propose to include in the letter conveying the Government's approval of the 1983 Plan some paragraphs reflecting these considerations and setting out the basis on which approval is given, on the lines of those in Annex C to this minute.

5 I should be grateful to know whether you and other colleagues agree that we should approve BL's 1983 Corporate Plan and the associated funding requirement. If you do agree, I would propose to make a written statement to the House soon after the Christmas recess.

6 I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland, Trade and Employment, to Mr John Sparrow and to Sir Robert Armstrong.

PJ

P J

11 January 1983

Department of Industry
Ashdown House
123 Victoria Street

ANNEXA

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

OFFICIAL GROUP ON BL

REPORT ON BL'S 1983 CORPORATE PLAN

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COMMERCIAL IN CONFIDENCE

I. INTRODUCTION

1.1 On 26 January 1981, the then Secretary of State for Industry announced the Government's decision to approve BL's 1981 Corporate Plan and "to fund the first two years of the Plan, including the first phase of the LC10 programme - that is, £620m in 1981-2 and £370m in 1982-3 - subject to regular monitoring by the BL Board of progress in achieving the Plan". In agreeing to fund two years of the Plan, rather than the normal one, Ministers accepted BL's arguments that a longer-term settlement was needed in order to maintain the confidence of dealers and management up to the launch of the LM10 in spring 1983. The 1981 Plan did, however, envisage the provision of a further £150m equity during 1983-4, although it made no formal request for this to be provided by Government. In approving the Plan, the then Secretary of State, while not excluding the possibility that these funds might be provided by Government, expressed the hope that BL would be able to raise them from the private market.

1.2 The 1982 Plan endorsed the strategy outlined in the 1981 Plan, with the exception of the strategy for the Leyland Group which had accumulated substantial losses during 1981. (For the Leyland Group the Plan proposed a radical restructuring in order to restore viability.) In particular the Plan reaffirmed that in addition to the £990m equity requested for the two years 1981-3 there would be a need for a further £150m in 1983-4, although once again there was no formal request for this to be provided by Government. The Official Group which considered the Plan concluded that the strategy proposed for the Cars, Unipart and Land Rover Groups offered reasonable prospects for continued recovery along the lines foreseen in the 1981 Plan, and that the strategy for the Leyland Group, while admittedly subject to substantial risks, offered some prospects of recovery and should be approved subject to especially close monitoring. Ministers endorsed this view and the Minister of State for Industry announced on 22 December 1981 that the Government had approved the 1982 Plan and reaffirmed the Government's commitment to providing £620m equity in 1981-2 and £370m in 1982-3. (In the event only £520m equity was required in 1981-2, and Ministers agreed in March 1982 that the remaining £100m should be rolled over and would be available if required in 1982-3.)

1.3 Early in 1982 the Government proposed that BL should raise at least part of the equity needed after March 1983 by selling Land Rover to the private sector in 1983 as the first step in the process of returning the whole of the company to the private sector. The Board accepted the long-term objective of returning BL to the private sector but argued that selling Land Rover in 1983 would be harmful to the rest of BL and would probably result in a delay in the privatisation of the remaining companies. After a series of discussions between Ministers and the BL Board Sir Michael Edwardes wrote to the Secretary of State on 4 August setting out the understanding which had been reached on the privatisation issue and on the future funding of BL. Mr Lamont replied on 6 August confirming that the Government's position was properly reflected in Sir Michael's letter. According to this exchange of letters, BL undertook:

a) to present in the 1983 Corporate Plan a strategy for full privatisation which offered visible progress in that direction within the next two years by such means as the sale of minority equity stakes in BL's more profitable business; and

b) not to seek further Government funds for the maintenance of the business after March 1984, subject to agreement by the Government to provide not only the remainder of the £990m already agreed but also such part of the £150m previously envisaged as was not offset by the estimated proceeds of privatisation in the financial year 1983-84.

1.4 The 1983 Plan therefore includes, in addition to the usual projections for each of the constituent business, a section describing how each business might be returned to the private sector. It is however too early to assess the proceeds of privatisation, and it is in any event unlikely that significant proceeds would be available to the company during 1983-84. In order to fulfil the commitment at 1.3(b) above, however, BL has reduced its request for a further £150m of equity over and above the £990m already agreed, and is now seeking only another £100m.

1.5 The 1983 Plan therefore raises three main issues, which are considered in the remaining chapters of this report. The first is whether, on the basis of BL's performance in 1982 and the latest projected results for the future, there are reasonable prospects for the recovery of the company to viability. This question is considered further in Chapters II and III. The second question is whether the privatisation strategy outlined in the Plan fulfils the commitments in Sir Michael Edwardes's letter of 4 August, and this is addressed in Chapter IV. These questions lead to the third, namely, the implications of the 1983 Plan for BL's funding, and more particularly the extent of Government funding which should be agreed. This is considered in Chapter V.

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COMMERCIAL IN CONFIDENCE

1.6 If it is agreed to provide further funds to BL over and above the £990m already notified to the European Commission, it will be necessary to notify the Commission of the decision. It would also be necessary to inform the Commission if payment of any part of the £990m already notified were to be deferred until after March 1983, since their earlier approval related to the provision of £990m over the two financial years 1981-82 and 1982-83.

II BL PERFORMANCE IN 1982

2.1 The performance of BL as a whole during 1982 has been reasonably encouraging, in a very difficult world and UK economic climate. For the first time in four years, the company is expected to meet its PBIT target. This performance reflects different fortunes amongst the Groups, with only Cars Group individually performing better than Plan.

2.2 The following table sets out the latest forecasts of the main performance indicators for the four principal Groups making up BL. In order that comparisons can be made with the figures in the 1982 Corporate Plan, these projections are on the old four-Group basis, showing Cars Group as a single entity (rather than split into Jaguar and Austin-Rover Group). These figures are based on BL's forecasts in the Corporate Plan, although latest forecasts are referred to where significant differences arise. The main difference lies in cashflow, which is now forecast to be £82m less than shown in the 1983 Plan and £115m less than in the 1982 Plan (principally as a result of a £32m further reduction on forecast capital expenditure).

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		Cars	Unipart	Leyland	Land Rover	BL*
Revenue	(£m)	1740	335	797	438	2978
Better/(worse) than Plan		(62)	(64)	(122)+	(38)	(302)
PBIT	(£m)	(105)	11	(29)	8	(134)
Better/(worse) than Plan		17	(2)	(38)+	(4)	11
Retained Earnings	(£m)	(181)	4	(41)	(10)	(301)
Better/(worse) than Plan		43	(2)	(24)	(5)	19
Cashflow in/(out)	(£m)	(320)	(10)	(130)	(46)	(524)
Better/(worse) than Plan		14	(12)	(33)+	(6)	33
Capital expenditure	(£m)	142	11	58	40	267
(Lower)/Higher than Plan		(21)	2	1	(8)	(49)
Sales volumes	(000)	423	NA	49	66	517
Better/(worse) than Plan		(26)		(3)	(3)	(32)
Market share UK	(%)	18	NA	14	NA	NA
Better/(worse) than Plan		(2)		(2)		
Manpower	(000)	48	5	31	14	103
Lower/(higher) than Plan		4	1	-	2	9

*Includes other companies and central adjustments, not shown separately

+The effects of these shortfalls on the total BL figure were mitigated by the inclusion in the Plan of central contingency provisions against such shortfalls, of £52m revenue, £40m PBIT, £55m cash flow.

2.3 Although market sizes were generally greater in 1982 than was foreseen in the 1982 Plan, conditions in the vehicle industry were still depressed, and this, together with the relative strength of sterling for a large part of the year, has led to fierce price competition. BL's inability in some cases to achieve planned revenues and market shares must be seen against these market conditions, in which very few non-Japanese vehicle makers are showing satisfactory results. BL's control of costs has, on the other hand, again proved excellent; and there have been substantial gains on the industrial relations front, with the current pay round satisfactorily completed and the general atmosphere much calmer than last year.

2.4 Only the Leyland Group fell seriously short of its own hopes for PBIT- though the projected shortfall is largely contained by the central contingency included in the 1982 Plan. Market share has been well below budget, but against this there are some encouraging signs: facility rationalisations and the introduction of new models have been achieved as planned; the unsuccessful January strike, whilst harmful in the short term, ended with acceptance by the workforce of substantial manpower reductions; and the "benchmark" performance on model profitability, manpower, costs and quality is at or close to budget. It is important to note that much of the shortfall arose in overseas operations, which although consolidated into the Leyland Group do not rely on the centre for funding.

2.5 Performance on cashflow shows a similar pattern to 1981, with Cars Group expected to be better than Plan, and the others worse (although with that of Leyland Group more than offset by the central contingency). On latest forecasts, the cash outflow is expected to be £82m less than is shown in the 1983 Plan. A major feature of this is a £32m reduction in the forecast capital expenditure. Capital expenditure is therefore expected to be £81m less than Plan, and £135m less than the budget, which included a provision for expenditure deferred from 1981. Of this accumulated shortfall, BL are now estimating that about £95m will be rolled forward into future years. BL have however stressed that this rephasing of capital expenditure will not result in any delay to product launch dates, because of a reduction in the lead time of a number of projects.

2.6 During the year, £260m of equity funding was provided to the company leaving £210m of the funding available for 1981/82 and 1982/83 so far unissued. £202m of medium term bank loans were also drawn down during 1982, partly offset by a reduction in short term borrowings.

2.7 Brief assessments of the performance of the main businesses follow. More detail is given in Annex 1.

Cars Group

2.8 Despite a competitive UK market, in which all manufacturers have had to spend money on discounts to dealers and on marketing campaigns, BL have kept total costs within Plan levels, and considerably lower than in 1981. This has enabled them to show a slightly better than Plan PBIT despite a small revenue shortfall. In a larger than expected UK market, BL had a lower than Plan market share: the major models, Metro and Acclaim, performed well within sectors (for instance, Metro outsold the Fiesta), but these sectors declined in importance relative to the upper medium car sector, where BL's presence is currently weak, and as a result BL achieved lower than expected shares of the total market. Jaguar has benefited from the strong dollar and from great improvements in perceived quality.

Unipart

2.9 Unipart's performance has been disappointing, the PBIT shortfall arising in the parts sales operations (rather than the manufacturing division) as a result of economic conditions in domestic and overseas markets.

Leyland Group

2.10 In recommending that the 1982 Leyland Group Plan be approved, the Interdepartmental Group was aware of the magnitude of the task facing the Group and the risks attending its achievement. In view of the risks involved, the BL Corporate Staff has inserted central contingencies into the total BL budget against such worse than Plan performance. The latest forecast PBIT of £(37.2)m means the PBIT contingency is overrun by £6.1m; the Group still expects to perform within the cashflow margin allowed by the centre. However, the UK operation, Leyland Vehicles Limited (LVL), where the performance shortfall was expected to occur, is only responsible for just over half of the profit shortfall - the bulk of the rest occurs in the two major overseas operations, Ashok Leyland in India, and Leyland South Africa. Furthermore, following the unsuccesful strike at the start of the year, facility rationalisations have gone ahead with the cooperation of the workforce and the underlying physical progress at LVL has been more encouraging than the financial results would suggest. New models are being progressively introduced, and material and model profitability targets are now being met.

Land Rover

2.11 Economic problems in major African and Middle-Eastern markets have meant that sales volumes have only been maintained at the cost of lower margins. The van manufacturing division, Freight Rover, has recovered from poor 1981 figures and is now approaching breakeven.

Conclusion

12 Against the economic background, 1982 performance for BL as a whole was broadly satisfactory, and supports the prospect of continuing recovery. In the Leyland Group, performance in 1982 leaves a question mark - as there was one at the beginning of the year. But the Group's progress has its encouraging points and its results are by no means so poor, taken in themselves, as to rule out the prospect of recovery.

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III. KEY FEATURES OF THE 1983 PLAN

Overall features

3.1 As in the 1982 Plan, BL as a whole is projected to achieve breakeven at the trading level in 1983 and to approach breakeven after interest and tax in 1984. Within this overall performance, the old Cars Group (now subdivided into ARGH and Jaguar) is still projected to achieve breakeven before interest and tax in 1984. The Unipart and Land Rover Groups are expected to show steadily increasing profits over the Plan period. The Leyland Group is forecast to return to profit at the trading level in 1983 and to achieve a profit after interest and tax in 1984:

FORECAST PROFIT/(LOSS) BEFORE INTEREST AND TAX - £m

	1981	1982	1983	1984	1985	1986	1987
ARGH	(167)	(126)	(64)	(9)	16	41	49
Jaguar	(24)	12	10	19	36	44	58
Unipart	14	11	20	23	28	30	32
Land Rover	17	8	23	39	58	74	76
Leyland	(74)	(29)	21	78	128	135	143
Central Services/ Other Companies/ Consolidation	(11)	(10)	(6)	(9)	(9)	(8)	(6)
Total BL plc	(245)	(134)	4	141	257	316	352

3.2 Since the Plan was submitted, BL have revised their forecasts of PBIT in 1982 as follows:

1982 PBIT (£m)

	1983 Plan	Forecast	Forecast b/(w) than Plan
ARGH	(126)	(115)	11
Jaguar	12	12	-
Unipart	11	11	-
Land Rover	8	7	(1)
Leyland	(29)	(37)	(8)
Central Services/ Other companies/ Contingencies	(10)	(13)	(3)
Total BL plc	(134)	(135)	(1)

These revised figures are still broadly in line with the financial trends shown in the 1983 Plan.

3.3 Although the broad trend of financial performance on profit and loss account is comparable with that in the 1982 Plan, projected profit before interest and tax over the period 1981-6 is forecast to be £(92)m worse than in the previous Plan, and £(125)m worse over 1983 to 1986. This projected shortfall breaks down as follows:-

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PBIT better/(worse) than in the 1982 Plan

	1981	1982	1983	1984	1985	1986	Total 1981-6	Total 1983-86
ARGH	12	10	(18)	(9)	1	(2)	(6)	(28)
Jaguar	-	7	4	-	(1)	3	13	6
Unipart	2	(2)	(5)	(11)	(12)	(19)	(47)	(47)
Land Rover	13	(4)	(9)	-	-	4	4	(5)
Leyland*	6	2	1	(9)	13	(9)	4	(4)
Central Services/ Other companies/ Consolidation+	(11)	(2)	4	(18)	(15)	(18)	(60)	(47)
Total BL plc	22	11	(23)	(47)	(14)	(41)	(92)	(125)

*1983 Plan compared with 1982 Plan after allocation of centrally held contingencies.

+The relatively large negative sums appearing under this heading for the years 1984-6 reflect two main factors:

a) The 1983 Plan, unlike the 1982 Plan, does not consolidate the post-1982 results of Aveling Barford and Goodwin Barsby which should shortly be disposed of. These companies were projected in 1982 to produce a combined PBIT in 1984, 1985 and 1986 of £3m, £7m and £7m respectively.

b) The revised projections for Central Services (chiefly BL Systems) over the three years.

The main shortfall on the 1982 Plan figures (leaving aside Leyland, for which a contingency was deliberately created in the 1982 Plan) occurs for Unipart; other Groups are still projected to perform much as in last year's Plan. The deteriorations that occur are largely accounted for by the fact that the 1983 Plan, when compared with the 1982 Plan, projects lower demand (especially for Unipart), a greater alignment of UK and European car prices and slightly higher sterling exchange rates towards the end of the Plan period. These factors are expected to be largely offset by further significant improvements in cost performance.

3.4. Despite this deterioration in PBIT over the Plan period, projected cash outflow over the period is held broadly in line with that in the 1982 Plan. Since the allocation by BL of debt to the operating companies is somewhat arbitrary the following table gives the operating cashflow (ie net of interest) for each company, and interest charges are shown separately.

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1983 Plan operating cashflow forecasts

£m	1981	1982	1983	1984	1985	1986	1987
ARGH	(235)	(255)	(148)	(73)	(16)	42	2
Jaguar	(43)	(30)	(34)	(12)	26	10	15
Unipart	18	(5)	16	7	12	24	27
Land Rover	4	(36)	(13)	33	46	48	47
Leyland	(61)	(104)	(40)	3	67	54	30
Central services/ other companies +	45	(5)	(2)	(2)	-	1	2
Interest charges	(88)	(100)	(112)	(117)	(122)	(112)	(96)
Consolidation	(41)	11	(25)	(13)	(1)	(7)	(7)
Total BL plc	(401)	(524)	(358)	(174)	12	60	20

+The high cash inflow shown here for 1981 reflects largely the disposal of Prestcold, Alvis and Coventry Climax.

A direct comparison of operating cashflow forecasts with those in the 1982 Plan is not possible because of the re-organisation of the company. However, interest costs in the 1983 Plan are broadly similar to those in the 1982 Plan, and the allocation of debt to the operating companies appears broadly unchanged, so that the differences between the overall cashflow forecasts in the two Plans can largely be attributed to operational factors rather than changes in interest.

1983 Plan cashflow forecasts: better/(worse) than 1982 Plan.

£m	1981	1982	1983	1984	1985	1986	Total 1981-6
ARGH	87	12	(25)	(40)	(19)	1	16
Jaguar	2	2	7	(7)	(1)	(7)	(4)
Unipart	36	(12)	11	(3)	(7)	(4)	21
Land Rover	25	(6)	(20)	3	(1)	(2)	(1)
Leyland	18	17	(24)	(3)	10	(24)	(6)
Central services/ other companies	32	10	13	11	10	10	86
Consolidation	(55)	10	(15)	(24)	(10)	(2)	(96)
Total BL plc	145	33	(53)	(63)	(18)	(28)	16

However, this apparent marginal improvement in cash outflow over the Plan period represents an improvement in 1981-2 totalling £178m and a subsequent deterioration (compared with the 1982 Plan) of £162m in the period 1983-6. The improvement in 1981-2 largely reflects lower than planned capital expenditure (£468m incurred as against £601m planned) and lower than expected losses (actual PBIT £(379)m over the two years as against £(412)m expected). The subsequent deterioration in cashflow reflects the downgrading of earnings forecasts from 1983 onwards, while assets overall are projected to be at about the same level as in the 1982 Plan.

3.5 The regional implications of the Plan are considered at Annex 2. In summary, the only feature of the Plan which might be expected to increase pressure for an upgrading in Assisted Area status is the cessation of assembly at Bathgate in 1984. It is also possible that any significant resourcing of BL components from overseas would increase unemployment in the West Midlands and increase the pressure for Assisted Area status there, but we cannot assess the likelihood of this at present.

3.6 Whether BL's plan can be achieved will depend partly on how far its forecasts of developments in the national and world economy are realised. The official view of the immediate prospect, as set out in the Industry Act forecast, is close to BL's. World activity is expected to be a little lower than BL assume but UK consumer expenditure is expected to be a little higher. BL's assumptions about domestic cost increases look too high in view of current inflation trends. The company's sales and profits should also benefit from the recent drop in the exchange rate, if it proves permanent, which BL's forecasts do not allow for. In the longer term BL have assumed that a rise in the real oil price in 1984 results in a cyclical downturn in the UK and world economies in 1985. This is possible but the official view is that the recovery from the present deep world recession will be more prolonged. Our overall assessment of BL's economic assumptions is therefore that they are slightly pessimistic. We belive this is sensible for planning purposes. There is no risk that BL will forgo market share because they have taken this view; but failure to be cautious could have caused BL to make over-optimistic plans.

Austin Rover Group Holdings

3.7 The product and marketing strategy for ARGH is broadly similar to that in the 1982 Plan, although there have been some changes in timing. The basic strategy remains to achieve a coherent manufacturing and marketing base by the mid-1980s as follows:

Plant	Models and launch dates		Product range
Longbridge	Metro	Oct 1980	small car family
	Acclaim*	Oct 1981 (facelift 1984)	
Cowley	LM10	Spring 1983	medium/ executive. family
	LM11	Spring 1984	
	XX	Spring 1985	
	LM16	Spring 1986	

*currently produced at Cowley

Broadly speaking, the LM10 and LM11 will be directed at the medium sector (competing with such cars as the Ford Escort and Sierra and the Vauxhall Cavalier) while the XX (the Rover replacement) and LM16 (the Ambassador replacement) will be directed at the upper medium/executive sector. There will be a high degree of component commonality between the models in this family, and this, together with the use of flexible manufacturing systems, will enable economies of scale to be achieved. In the longer term, the Plan envisages replacement of the small car family in the late 1980s, with the Acclaim to be replaced in 1989 by the LM5 and the Metro to be replaced in 1990 by the LM6. It is too early to estimate the capital cost of this programme, but BL believe it will be comparable to the LC10 programme, which has involved capital expenditure of some £200m. The Acclaim facelift, as well as the LM5 and the LM6, will be produced at Longbridge, so that by the mid-1980s each family of cars will be produced at a dedicated manufacturing plant (Longbridge for the small car family, Cowley for the medium/ executive family).

3.8 The introduction of this strategy has involved the rationalisation of plant facilities and the phasing out of old models. This process is now virtually complete. During 1982 the company have closed Solihull, Speke No. 1, Coventry Engines and CAB2 at Longbridge, and disposed of Alford and Alder and Rearsby Components. Production of the Allegro ceased early in the year: the next models to be phased out will be the Mini and the Ital in mid-1984, to be followed at end-1984 by the Rover and at end-1985 by the

Ambassador. In the meantime the Ital has been transferred from Cowley to Longbridge, so avoiding redundancies there and freeing labour at Cowley for the LM10.

3.9 An important feature of this product strategy is the extent to which economies of scale are achieved by collaborative ventures. The Acclaim is the first model ARGH have produced in collaboration with Honda, and the Acclaim facelift (which will be significantly different from the existing Acclaim) is also to be a collaborative project - possibly to be carried out by a joint company established by ARGH and Honda expressly for the purpose. The XX is also to be a collaborative project with Honda, and once again there is a possibility that a joint company might be established. If the problems in the European market which have been encountered with the Acclaim are to be avoided, BL and the Government will need to ensure that these ventures are carefully presented to our European partners as being different in kind from, and much more of an equal partnership than, the initial collaboration on the Acclaim.

3.10 The most important phase of this product strategy is the introduction of the LM10 and LM11, which ARGH are expecting to take up to 9% of the market by 1985. For several years ARGH has been represented in the increasingly important medium car sector only by ageing models of limited appeal (eg Allegro, Ital). If the LM10 and LM11 are successful ARGH will be able to break into this sector, with corresponding benefits to their sales volumes and market share, which are projected as follows:

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UK Car sales

	1981	1982	1983	1984	1985	1986	1987
Volume (000)	277	259	287	337	347	358	358
Market share	18.7%	17.4%*	18.5%	20.4%	22.4%	22.4%	22.4%
Volume better/ (worse) than 1982 Plan (000)	(5)	(25)	(15)	16	(3)	6	N/A
Market share better/ (worse) than 1982 Plan	(0.4)%	(2.1)%	(2.3)%	(1.0)%	(0.9)%	(1.1)%	N/A

* Since preparation of the Plan ARGH have revised their forecast market share for 1982 to 17.3%.

Although market share is projected to remain consistently below the levels projected in the 1982 Plan forecast volume over the period 1983-6 is very slightly increased, which reflects a rather more optimistic view of economic conditions, and thus of total industry volume (TIV), over the period:

TIV	1981	1982	1983	1984	1985	1986	1987
1983 Plan (000)	1485	1490*	1550	1650	1550	1660	1600
Higher/ (lower) than 1982 Plan (000)	8	35	100	150	50	100	N/A

* The latest forecast TIV for 1982 is 1,549,000 vehicles.

3.11 The programme of manpower reductions in ARGH is now almost complete, although there are still redundancies to come in 1983. These redundancies will be partly offset by the recruitment now under way at Cowley to man a second shift on the LM10 lines. Productivity over the Plan period is now forecast to rise rather more than in the 1982 Plan:

1983 Plan	1981	1982	1983	1984	1985	1986	1987
Manpower (000)	51	40	36	36	37	37	37
Production (000)	407	381	434	505	525	557	578
Vehicles/ man/year	8.0	9.5	12.1	14.0	14.2	15.1	15.6
1982 Plan (for comparison)							
Manpower (000)	51	45	43	42	42	42	
Production (000)	438	422	458	492	543	552	
Vehicles/ man/year	8.5	9.4	10.7	11.7	12.9	13.1	

This significant improvement in projected productivity levels reflects not only the advanced production facilities now coming into use at Cowley for LM10 production as well as at Longbridge for the Metro but also improved industrial relations and reformed working practices, which should result from agreements between BL and the unions agreed earlier this year. Productivity in October this year was 9.23 cars/man/year, 7% above budget, and now that production of the LM10 has started the above targets look achieveable. (Continental car manufacturers are currently believed to be achieving average productivity levels of about 11 cars/man/year, while productivity at Ford UK is a little over 7 cars/man/year.)

3.12 Capital expenditure in 1982 is forecast in the 1983 Plan to be £109m, although BL have subsequently downgraded this forecast to £101m and there may yet be a further reduction. This compares with a budget figure of £167m (a direct comparison with the 1982 Plan is not possible because that Plan does not separately identify ARGH's capital expenditure). £17m of this shortfall is due to physical savings (eg abandoned or more economical projects), £5m is due to price savings compared with budget, and the remaining £46m is due to the rephasing of expenditure patterns. This rephasing has been achieved without jeopardising the timing of product launch by reducing the lead time of a number of projects. ARGH's capital investment forecasts for future years in the Plan period are as follows:

£m.	1983	1984	1985	1986	1987
	129	152	138	113	197

3.13 ARGH reaffirm in the Plan their determination to keep down component costs, and suggest that if UK component manufacturers cannot compete with foreign suppliers the company may have to resource abroad a significant proportion of its component purchases. The company have however subsequently agreed that before coming to any significant decisions about resourcing they will inform the Department of Industry so that the Department can pursue the possibility of Government assistance (under existing schemes) for investment in the supplying company which would enable it to meet ARGH's requirements on quality, reliability and price. Discussions between ARGH and the Department have already identified some candidates for such assistance.

Risks

3.14 As noted above, the achievement of ARGH's projected market shares - and indeed ARGH's survival in the market place - depend crucially on the success of the LM10 and LM11 - particularly perhaps the LM10, as the first in the range. This model will not be launched until the spring of 1983, and it will not be possible to judge its success in the market until the middle of the year.

3.15 Of the other factors within ARGH's control, perhaps the major threat to achievement of the Plan lies in the risk of prolonged industrial unrest, which would not only damage the company directly but would probably have a lasting effect on its market share. The risk of industrial unrest can never be completely dismissed in the vehicle industry, but a number of signs suggest that there are grounds to hope for a period of peace at ARGH. The agreement on a two-year pay settlement is one such sign; the conclusion of a new industrial relations agreement in June this year is another. Despite all the uncertainties, therefore, it seems reasonable to say that the risk of non-achievement of the Plan due to prolonged industrial unrest is less for this Plan than it has been for previous Plans.

3.16 The other major risks are largely outside ARGH's control; the level of economic activity (and its effect on TIV) and the exchange rate (particularly against other European countries) are perhaps the two most important. These might also be a risk toARGH if UK prices had tobe held down to enable the differential between UK and Continental prices to narrow more rapidly than assumed in the Plan, but recent movements in the exchange rate have already eliminated a large part of the differential. However, as noted above, the economic assumptions underlying ARGH's forecasts are if anything on the cautious side: the recent movements in the exchange rate, for instance, if not reversed should increase ARGH's profits substantially. The risk of non-achievement for these reasons therefore appears reduced.

Conclusions

3.17 ARGH is continuing broadly on the path laid out in previous Plans, although it is too soon to draw any firm conclusions about the long-term future of the company in advance of the launch of the LM10. It is clear, however, that on the results projected ARGH will not be a commercially attractive copany within the Plan period, and that towards the end of the Plan period the question of funding the next model replacement programme will arise. The implications of this are discussed further in Chapter IV, paragraphs 4.17 to 4.19.

Jaguar Group

3.18 Jaguar is projected to maintain over the Plan period the strong recovery forecast in the 1982 Plan. This strong recovery is based largely on a continuing increase in sales to North America (chiefly the USA) and a determined attempt to break into the West German market (where the luxury car market is over four times the size of the UK equivalent).

Sales volumes (000)

	1981	1982	1983	1984	1985	1986	1987
1983 Plan							
UK	5.7	6.6	6.9	9.0	9.3	9.6	9.6
North America	5.0	9.7	11.5	11.1	12.3	12.2	19.1
Europe	3.0	3.0	4.5	4.5	5.7	6.0	7.0
Rest of World	1.9	2.3	3.0	3.0	3.6	3.9	4.8
Total	15.6	21.6	25.9	27.6	30.9	31.7	40.5
Better/(worse) than 1982 Plan							
UK	(0.3)	(0.4)	(0.1)	-	(0.7)	(1.4)	
North America	-	2.7	3.5	2.1	2.3	2.2	
Europe) Rest of world)	(0.1)	0.3	0.5	(0.5)	(1.7)	(2.1)	
Total	(0.4)	2.6	3.9	1.6	(0.1)	(1.3)	N/A

The sharp increases in sales projected in 1984-5 and in 1987 reflect the introduction in 1984 of the XJ40 (a luxury car replacing the XJ6 and XJ12) and in 1986 of the XJ41 (a sports car replacing the XJS). The launch of the proposed XJ80 (an upper executive 4-door saloon) has been postponed from 1986 to 1988 so as to allow an earlier launch for the XJ41.

3.19 The consolidation of plant facilities foreseen in the 1982 Plan has proceeded in 1982 and will be completed early in 1983. Manpower has declined sharply since 1980, but it is now forecast to increase steadily over the Plan period. The reduction in the workforce in 1982 has been less than that projected in the 1982 Plan, and the increase now projected greater, but productivity is still expected to rise steadily (although the dramatic productivity increases of the past two years will not be repeated):-

	1981	1982	1983	1984	1985	1986	1987
1983 Plan							
Manpower (000) (Av year)	7.9	7.3	7.7	8.1	8.3	8.5	9.1
Productivity (vehicles/man/year)	1.8	3.1	3.4	3.4	3.7	3.7	4.5
Higher/(lower) than 1982 Plan							
Manpower	0.1	0.5	0.5	0.4	0.5	0.6	N/A
Productivity	(0.1)	0.3	0.2	(0.2)	(0.2)	(0.3)	

Conclusions

3.20 The dramatic turn-round of Jaguar has continued, and the company is well on course to achieving its objectives. If anything, the prospects appear somewhat rosier than the Plan suggests. Jaguar's high level of sales to North America means that its profits are dramatically affected by changes in the exchange rate. The 1983 Plan is based on a $/£ exchange rate averaging a little over $2/£ over the Plan period, and BL have estimated that a 10% reduction in the exchange rate against all currencies would increase Jaguar's PBIT by £13m in 1983 and £40m in 1987. The most important exchange rates for Jaguar are the $/£ and DM/£ rates: the latter has not declined in recent months as much as the former. While it is not possible to make precise estimates, it seems fair to say that if sterling continues at current levels, therefore, the profit levels projected in the Plan should be comfortably exceeded.

Unipart Group

3.21 The 1983 Plan projects lower profits than the 1982 Plan; over the period 1982-6, profits are now expected to be £(47)m lower than previously thought. The major part of this shortfall appears to arise in Unipart division, the replacement parts marketing operation, which accounts for almost 80% of the Group's revenue. Sales volumes for this division are now forecast to be substantially lower than in the 1982 Plan, and to decline rather than increase over the Plan period.

Unipart division sales volumes (value - £m - at 1982 prices)

	1982	1983	1984	1985	1986	1987
1983 Plan	300	270	265	260	255	250
1982 Plan	378	403	435	463	487	N/A
1983 Plan better/ (worse) than 1982 Plan	(78)	(133)	(170)	(203)	(232)	N/A

The projected decline in sales over the Plan period reflects the declining BL car parc. Even a projected increase in Unipart's UK "all-makes" sales does not completely offset this; moreover, this increase has to occur in a static UK market, as longer service intervals and greater reliability are expected to counterbalance the slightly larger total car parc. Both BL and all-makes sales projections in the 1983 Plan have been affected by the ban on exclusive sales contracts with dealers arising from the recent MMC report on car parts.

3.22 Because of depressed market conditions, Unipart are assuming annual price increases 3% below the UK inflation rate. To achieve the necessary cost reductions to sustain this, present supply pattern are being reviewed, with the aim of developing fast-moving product lines and withdrawing from slow-moving and unprofitable ones. Fixed costs are to be further reduced. Manpower is to be reduced (from 2,200 at end 1982 to 1,600 by 1987) as a result of the introduction of new systems and automation. Volumes per employee are therefore expected to rise over the Plan period by 6% per annum despite the fall in total volumes.

3.23 The major risk to this plan would seem to be in the assumption of a 15% growth in UK all-makes sales in a static market. Monopolies legislation may also be more damaging than foreseen. The sales organisation is in need of reorganisation and satisfactory retail franchising arrangements have yet to be devised. There is also a risk that the demand for BL model parts, being based on other Group's planned market shares, may be lower than expected. Furthermore, Unipart's third world export markets, rather than recovering as seems to be expected, may remain precarious for some time.

3.24 On the other hand, the projections do not fully reflect the benefits which may derive from the European and USA all-makes business which Unipart hope to develop. Yearly price increases 3% below UK inflation may be unduly pessimistic if demand picks up.

3.25 The manufacturing division, SU Butec, also depends heavily on sales to BL product companies; however, a decline in these is expected to be more than offset by an increase in other sales.

SU Butec: sales volumes (value - £m - 1983 prices)

1983 Plan	Original equipment 1982	1986	After-market 1982	1986	Total 1982	1986
BL product cos	39.5	37.5	1.9	1.1	41.4	38.6
Unipart	-	-	17.0	21.3	17.0	21.3
External	5.5	12.4	8.8	13.9	14.3	26.3
TOTAL	45.0	49.9	27.7	36.3	72.7	86.2

SU Butec has already in some areas products and processes while are competitive in world markets, and the introduction of new product and process technology should enable the company to approach Japanese levels of productivity. SU Butec aim to strengthen their volume base by exploiting their technology and expertise through joint ventures and licensing arrangements and by diversifying into non-automotive applications for their technology.

3.26 The major risk to SU Butec's Plan would seem to be the non-achievement of competitiveness targets, which apart from having a general effect on costs and sales, could result in a loss of ARGH's business to overseas competitors. Overall sales growth is assumed in a static market, although not of the order of that sought by Unipart division. However, prudent assumptions are made about the BL market, with Cars and Land Rover volumes taken as 500,000, rather than the 600,000 on which the companies' own plans are based; and sales to these companies are assumed to decline from 57% of all sales in 1982 to 42% in 1987. It may also be possible to reflect cost improvement in higher margins than planned, rather than lower real prices.

Conclusions

3.27 Over Unipart Group as a whole, there hangs the major handicap of a static market resulting from larger service intervals and improved reliability, into which both divisions must make further inroads if they are to achieve their Plan. This depends above all on being price competitive and hence improving the cost effectiveness of manufacturing, storage and distribution systems. Although the risks and opportunities cannot be precisely quantified, SU Butec would seem to have the greatest potential for improvement over Plan, based on its past record of technological development and productivity increases; and this may in some measure offset the risk to the marketing operations.

Land Rover Group

3.28 As in the 1982 Plan the Land Rover Group is projected to made a profit before interest and tax in each year during the Plan period, and to make a profit before tax in every year except 1982. However, although the projected profit level rises steadily from year to year (reaching £76m PBIT in 1987 compared with £8m in 1982), profits in the early years of the Plan are expected to be lower than in the 1982 Plan, and over the period 1982-86 a cumulative shortfall of £(9)m is projected. This deterioration reflects three main factors:-

a) Export sales are now expected to hold up less well than projected in the 1982 Plan, as a result both of the continued recession, which is affecting some of LR's African markets particularly badly, and of intense competition, particularly from Japanese manufacturers.

b) Smaller price increases are assumed than in the 1982 Plan, again reflecting the intense competition in export markets.

c) These effects are partly offset by improvements in cost performance, compared with the 1982 Plan.

3.29 The product strategy for LR is broadly unchanged from that in the 1982 Plan. The main features of the strategy are:

a) the launch in early 1983 of a new model Land Rover, the Stage 2, initially in long (110") wheelbase form and subsequently in a number of variants;

b) the replacement during 1983 of the existing Series III short (88") wheelbase model with the Series IIIa, which will incorporate body changes from the Stage 2 model;

c) a number of improvements during 1983-4 to the Range Rover, with an eye particularly on the North American markets, in which Range Rovers are not currently sold. The decision to attack the North American markets is the major new marketing feature of the 1983 Plan.

In the longer term the Plan identifies the need for a new short-wheelbase model to replace the Series IIIa in the mid-1980s if LR are to stay in the medium-duty 4 x 4 market. LR have not yet decided whether such a vehicle fits in with their overall strategy and, if so, how this model replacement should take place, but they have recently started work on a detailed study of the options which is expected to reach firm conclusions during 1983. One possibility is an all new short wheelbase range aimed primarily at the private sector, and capable of being extended to a longer wheelbase for Range Rover, pick-up and possibly panel van applications. This approach would require substantial resources, well beyond LR's resources, and could only be pursued as a collaborative venture. The alternative would be to adapt the Stage 2 model to shorter wheelbase form: this would however entail a separate programme to modernise the Range Rover.

3.30 Manpower has been reduced over the past two years rather more rapidly than was suggested in the 1982 Plan, and although manpower is expected to rise slightly over the Plan period the rise is less than that predicted in the 1982 Plan:

Manpower (average yr) (000)

	1980	1981	1982	1983	1984	1985	1986	1987
1983 Plan	13.7	11.4	10.7	10.9	11.0	11.0	11.0	11.0
Higher/ (lower) than 1982 Plan	-	(0.7)	(0.4)	(1.0)	(1.0)	(1.3)	(1.4)	N/A

Productivity in 1982 as measured by units per employee has been slightly below Plan levels; it is, however, now forecast to rise rather more rapidly than in the 1982 Plan:

Productivity	1980	1981	1982	1983	1984	1985	1986	1987
Units/ employee, 1983 Plan	4.4	4.6	5.0	5.7	6.3	7.0	7.4	7.5
Better/(worse) than 1982 Plan	-	0.2	(0.2)	0.1	0.5	0.7	0.5	N/A

3.31 Land Rover sales, which in 1982 have been running almost 20% down on the 1980 peak (and below 1982 Plan levels) are projected to increase by nearly 45% over the Plan period, leading to sales projections well below those in the 1982 Plan. Within this overall figure, sales in the UK and Europe are now expected to be better than in the 1982 Plan, with sales in the rest of the world more than offsetting this improvement. By far the greatest part of the increase in sales is expected to occur in the export of KD kits for assembly abroad, usually in African countries. This area of LR's operations has suffered a severe setback over the past year, falling off by a third between 1981 and 1982, but is projected to recover rapidly to last year's level and to increase further thereafter. The rapid recovery in 1983 is in part attributable to orders already obtained, but it is not certain that all the orders placed will in fact lead to exports, because of instability or uncertainty in the ordering countries.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

Land Rover sales (000)

	1981	1982	1983	1984	1985	1986	1987
1983 Plan							
UK	6.9	8.3	9.1	10.6	10.4	10.8	10.8
Europe	6.4	8.4	8.1	9.9	10.7	11.4	11.6
Rest of world - built up	11.0	11.3	11.2	10.7	11.8	12.6	12.6
- KD kits	18.2	12.0	18.5	21.2	22.1	22.7	22.7
TOTAL	42.5	40.0	46.9	52.4	55.0	57.5	57.7
Better/(worse) than 1982 Plan							
UK	0.3	1.4	1.1	1.6	0.4	(0.2)	
Europe	1.8	2.4	1.3	2.4	2.7	2.4	
Rest of world - built up	(0.7)	(2.9)	(4.0)	(5.3)	(6.5)	(8.9)	
- KD kits	(2.4)	(6.7)	(3.5)	(0.8)	(2.2)	(3.1)	
TOTAL	(1.0)	(5.8)	(5.1)	(2.1)	(5.6)	(9.8)	N/A

3.32 Range Rover sales, on the other hand, are projected to increase much more rapidly than in the 1982 Plan, primarily as a result of the decision to attack the North American markets. (Marketing in Canada is due to start in late 1983, and in the USA in late 1984.)

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Range Rover sales (000)

	1981	1982	1983	1984	1985	1986	1987
1983 Plan							
UK	2.4	2.7	3.0	3.2	3.2	3.2	3.2
Europe	3.7	5.2	5.9	6.3	6.8	7.2	7.5
N America	-	-	0.1	1.4	5.5	6.0	6.5
Rest of world - built up	2.9	3.1	3.3	3.8	4.5	4.7	5.1
- KD kits	1.4	1.8	2.0	2.1	2.2	2.2	2.2
TOTAL	10.4	12.8	14.3	16.8	22.2	23.3	24.5
Better/(worse) than 1982 Plan							
UK	0.2	0.5	0.6	0.5	0.2	-	
Europe	(0.1)	1.0	1.4	1.0	0.8	0.8	
N America	-	-	0.1	1.4	5.5	6.0	
Rest of world - built up	(0.1)	(0.3)	(0.4)	(0.2)	0.3	-	
- KD kits	0.2	(0.4)	(0.4)	(0.4)	(0.6)	(1.0)	
TOTAL	0.2	0.8	1.3	2.3	6.2	5.8	N/A

3.33 Freight Rover (light commercial vehicle) sales are projected to be about the same overall as in the 1982 Plan. Following the successful launch of the Sherpa van this year the company intends to launch a heavier vehicle, the MT210, in 1984 which will give them complete coverage of the light commercial vehicle sector. Last year's decision to withdraw from exports (which have been of declining importance in recent years) and concentrate on the domestic market is confirmed.

Freight Rover Sales (000)

	1981	1982	1983	1984	1985	1986	1987
1983 Plan							
Domestic	8.0	10.4	12.6	17.3	18.3	19.7	20.3
Export	3.0	1.9	0.8	-	-	-	-
TOTAL	11.0	12.3	13.4	17.3	18.3	19.7	20.3
Better/(worse) than 1982 Plan							
Domestic	(0.3)	0.7	-	-	(1.2)	0.2	
Export	0.4	1.2	0.8	-	-	-	
TOTAL	0.1	1.9	0.8	-	(1.2)	0.2	N/A

Risks

3.34 The major risk appears to lie in LR's continued dependence on exports of both built-up units and KD kits to developing countries. Many of LR's traditional markets, particularly in Africa, have found themselves in severe economic difficulty in recent years, and there must be considerable doubt about whether they can recover on the timescale postulated by LR, even assuming that the world as a whole pulls out of recession fairly soon. LR acknowledge the economic difficulties in their traditional markets and the effect of the world recession but still predict market growth to average 6.7% over the Plan period. We are concerned that this may be an over-estimate. Moreover, there has been fierce competition, especially in slightly richer markets, which has been exerting a downward pressure on prices which is unlikely to be relieved in the near future. It may well be true, as LR argue, that many of LR's competitors (particularly the Japanese) offer a less sophisticated and robust product, but it is equally true that such a product will suffice for an increasing number of customers.

3.35 A second risk lies in the projected North American launch for Range Rover. There is no reason at present to suppose that this launch will not be successful, but if it is not the prospects for this side of the business would be distinctly less attractive.

3.36 In the longer term, there may be room for concern at the prospect of a gap appearing in the product range in the mid 1980s. LR have however seen this risk themselves, and are devoting considerable attention to resolving the issues quickly. With the advent of CAD/CAM and other advanced engineering techniques the time required to develop a vehicle from concept to production has been sharply reduced in recent years, and so long as LR resolve the outstanding questions in the course of the next year there is no reason to suppose that the model replacement programme (if it is decided to embark on one) will be delayed. We would expect to see in next year's Plan more fully worked ideas in this area.

Conclusions

3.37 The environment in which LR operate has not improved since last year, and may well have deteriorated. Economic difficulties abound in LR's traditional markets, and competition is intense. There are clearly risks to the achievement of the Plan. We are not convinced that sufficient management attention has in the past been paid to addressing the risks identified above, but there are now signs of the increased effort in this area which we believe to be necessary if the Plan is to be achieved. One example of this effort is the increased attention now being paid to the model replacement problem referred to in the previous paragraph. This increased management effort gives reasonable grounds for expecting that the company will be able to build on its well-established reputation and its good products and remain one of the more profitable parts of BL.

Leyland Group

3.38 The 1982 Plan for Leyland Group represented a radical realignment of the facilities, manpower and manufacturing methods of Leyland Trucks, the Group's truck manufacturing arm. This followed a sharp decline in the truck market in the second half of 1980 for which the then management had been unprepared. The 1982 Plan was the first full Plan to be presented by a new management team led by Mr David Andrews, although they had previously prepared a Plan in the summer of 1981 which had been approved by the Board and the Government only as an interim operating base for the remainder of 1981. The 1982 Plan was considerably more cautious in its projections of the market and of Leyland's performance than earlier Plans had been; BL Corporate Staff, however, felt more cautious still and the 1982 Plan contained centrally held contingencies against non-achievement of the Plan objectives. As will be seen from the following paragraphs, events this year seem to have vindicated this judgment.

3.39 The 1983 Plan broadly reaffirms the strategy outlined in the 1982 Plan, although it is based on more cautious assumptions about worldwide sales volumes and the sustainable level of price increases than that Plan. (This downgrading of assumptions means that there is now a coincidence of view between Group management and BL Corporate Staff about the prospects for the Group; there is therefore no need this year to include a centrally-held contingency against non-achievement.) The Leyland Group as a whole is still projected to return to profit at the trading level in 1983 and to produce a profit before tax in 1984:

PBIT (£m)	1981	1982	1983	1984	1985	1986	1987
1983 Plan	(74)	(29)*	21	78	128	135	143
Better/ (worse) than 1982 Plan before contingency	1	(38)	(37)	(56)	(35)	(54)	N/A
Better/ (worse) than 1982 Plan after contingency	6	2	1	(9)	13	(9)	N/A

*Since preparation of the Plan BL have revised downwards the forecast PBIT for 1982 to a loss of £(37.2)m.

3.40 The Leyland Group includes not only Leyland Vehicles Ltd (comprising Leyland Trucks, Leyland Bus and Leyland Parts) but also a number of overseas companies, including Ashok Leyland (India) and Leyland South Africa. Although the contingency in the 1982 Plan was provided against non-achievement of targets by LVL (and especially Leyland Trucks) a large part of the shortfall against Plan can be attributed to these two overseas companies. LVL's projected results in the 1983 Plan are actually somewhat closer to those in the 1982 Plan than the above table suggests, although a direct numerical comparison is not possible. For LVL alone, the 1983 Plan projects PBIT as follows:

£m	1981	1982	1983	1984	1985	1986	1987
	(88)	(61)*	(12)	28	57	39	58

*Since preparation of the Plan BL have revised upwards the forecast PBIT for 1982 to a loss of £(53.5)m.

3.41 The 1983 Plan reflects a number of different assumptions, both about the performance of the market and LVL's performance relative to it, from the 1982 Plan:

	1981	1982	1983	1984	1985	1986	1987
UK Trucks TIV (000)							
1983 Plan	45	50*	57	70	65	60	60
Higher/(lower) than 1982 Plan	(1)	10	4.5	5	(5)	(5)	N/A

*Latest forecast TIV for 1982 is 45,300

	1981	1982	1983	1984	1985	1986	1987
UK Market Share %							
1983 Plan	16.0	14.4*	14.9	16.7	21.2	21.5	21.6
Better/(worse) than 1982 Plan	(0.4)	(1.4)	(0.9)	(2.6)	0.1	(0.1)	N/A

*Latest forecast market share for 1982 is 13.3%

The substantial increase in market share which is forecast to take place over the period 1983-85 reflects mainly the introduction in 1984 of a new range of light trucks, the MT211. Leyland are also expecting markedly to improve their market share in the medium truck sector following the introduction this year of the MT207 range. Leyland have for some years performed badly in these large sectors of the market - which together constitute over 50% of TIV - as as result of their excessive dependence on outdated models and their temporary withdrawal from the supply of small lorries.

LVL Sales Volume (000)

	1981	1982	1983	1984	1985	1986	1987
1983 Plan	46	49	55	58	60	66	71
Better/(worse) than 1982 Plan.	(5)	(3)	(3)	(13)	(16)	(16)	N/A

3.42 Within LVL there are once again no major changes proposed for Leyland Bus and Leyland Parts (the proposed rationalisation of Leyland Bus facilities is however more likely to proceed as planned following the acquisition by LVL of the 50% shareholding in Bus Manufacturers (Holdings) Ltd previously held by the NBC, which had previously prevented closure of the Bristol plant.) The rest of this section of the report concentrates on Leyland Trucks, which has been at the root of the Leyland Group's UK problems in recent years.

3.43 The main feature of the 1982 Plan was a major cost-cutting programme. One element of this was a rationalisation of truck production facilities, and this has been continued during 1982. The factory at Guy, Wolverhampton has closed during the year, and tractor manufacture has ceased at Bathgate. The long term objective remains to reduce the scale of operations and to concentrate on three dedicated plants: Leyland (for assembly and KD), Bathgate (for engines) and Albion (for axles). Gearbox and cab production is to cease. The continuation of engine manufacture will only be possible through collaborative ventures, and Leyland have already reached agreement with Cummins on the manufacture of the Family I engine (the lightest truck engine) from 1986. Negotiations on the possible collaborative manufacture of a Family III engine, also from 1986, are proceeding with DAF. The remaining two families of engines, Families II and IV, will probably be outsourced - although it is possible that Family III engines will supplant Family IV in all but the heaviest applications.

3.44 A further important element in the cost-cutting programme was a substantial reduction in the workforce and increases in productivity. The 1983 Plan continues this theme: the main difference is that after a slight increase in 1983 manpower is projected to decline even more than in the 1982 Plan.

Employment at end-year (000)	1981	1982	1983	1984	1985	1986	1987
1983 Plan	17.1	10.3	10.8	10.0	9.2	9.0	8.9
More/(less) than 1982 Plan	-	(0.1)	0.4	(0.4)	(1.2)	(1.4)	N/A

Productivity is still expected to increase markedly over the period. Labour productivity, as measured by standard hours per employee, is forecast to increase by over 20% over the next two years:

Productivity

	1981	1982	1983	1984	1985	1986	1987
Standard hours employees, 1983 Plan	380	469	500	569*	564	523	526

* The decline in output per man after 1984 reflects the reduction in engine production where output per man is higher than in vehicle assembly. Productivity in each area of production is still expected to improve throughout the Plan period.

This is clearly a substantial task. However, the company has made great advances in productivity this year, and we have no reason to believe that this trend will not be continued.

Risks

3.45 Although the forecasts underlying the 1982 Plan for Leyland Trucks have been revised downwards in a number of important respects in the 1983 Plan, there remains a substantial risk that targets will not be achieved and that a return to profitability will be postponed. Among the forecasts most at risk are:

a) Market share Leyland's market share is forecast to increase by over 40% in just two years (1983-5), from 14.9% to 21.2%. This increase is crucially dependent on the success of the new truck models referred to above. The latest forecast for market share in 1982 is 13.3%, well below the planned level of 15.8%, and a substantial improvement on current performance will be needed to achieve the Plan figure for 1983.

b) TIV Although revising downwards the TIV forecasts for later years, the 1983 Plan is forecasting a TIV of 70,000 vehicles in 1984, 55% above the latest forecast 1982 figure but still below the level attained in 1979.

c) Price The 1983 Plan is based on the following average price increases:

	1982	1983	1984	1985	1986	1987
1983 Plan	4.0%	10.6%	11.3%	7.0%	5.1%	9.0%
Higher/(lower) than 1983 Plan	(4.0)%	0.4%	3.7%	(2.4)%	(3.5)%	N/A

Although these price increases lead to absolute prices no higher, and in all years but one lower, than those in the 1982 Plan, there must be some doubt whether in the present depressed state of the truck market price increases of this order - especially the relatively high increases postulated for 1983 and 1984 - are realistic.

d) Exports About half of Leyland's export sales are to Africa, and many major customers there have faced extreme economic difficulties in recent years. Exports will also be vulnerable to exchange rate changes. There must therefore be some doubt whether the volume of exports predicted by Leyland (an increase of 70% over the period 1982-86) can be sustained. In particular, exports to Nigeria are predicted to treble from 1982 to 1987, a projection which is crucially dependent on the oil price.

3.46 There is also the danger that the prospects for recovery could be damaged by further industrial relations problems. Following a 4 - week strike at Bathgate earlier this year the workforce seem to have accepted the first, and perhaps the most painful, stage of the manpower-cutting programme on which the company is engaged. It is too soon to tell whether this strike has had a lasting effect on the company's market share. But there are still about 1400 jobs to go, nearly 1000 of them at Bathgate (out of a total of 2134 currently employed there, and employment in 1981 of some 3600), and the prospect of further strikes cannot be ruled out.

Conclusions

3.47 The 1982 Plan for Leyland Trucks was admitted to be subject to substantial risks. Its projections in several important areas, notably profitability, market share and productivity, have been missed. There is a major task ahead, including making up the ground that has been lost against Plan this year. Experience so far does not suggest that the risks are any less than they were last year although they cannot be said to be any greater. Some economic indicators, notably the exchange rate, have moved in Leyland's favour although the intense competition from other manufacturers shows no sign of abating. The prospect of viability remains more or less the same as it was last year. Leyland Trucks recovery is crucially dependent on how the market receives its new model ranges, the MT 207 (launched this autumn) and the MT 211 (due to be launched in 1984).

We shall need to continue to monitor performance very closely and the "benchmarks" system will help us to pick up any adverse developments at an early stage. Meanwhile, the performance of the Group as a whole has been affected by problems in other parts of the Group, although those problems do not appear to call for action as drastic as was required in the case of Leyland Trucks.

IV THE PRIVATISATION STRATEGY

Introduction

4.1 The strategy for the return of BL to private ownership is set out in the Foreword and Section 3 of the main volume of the Corporate Plan. The purpose of this chapter is to describe the strategy and the background to it, to discuss the prospects for privatisation of each of the main businesses, and to consider whether the strategy fulfils the commitment to make early and visible progress on this front which was given in Sir Michael Edwardes's letter of 4 August 1982 to the Secretary of State for Industry and accepted by the Government.

4.2 The key passages in Sir Michael's letter were:

i)"With regard to privatisation, I confirm it is the Board's objective to return BL in whole, and probably by instalments, to the private sector as soon as practicable. We acknowledge the wish of the Government to show early and visible progress to this end, consistent with maintaining the recovery strategy in the Corporate Plan.

ii)"The Board commits itself firmly to the following specific objectives ..... :-

a) To limit BL's requirements for Government funding to the [£990m of equity funding already committed and such part of the £150m of equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests and which can be demonstrated to be needed to fulfil the Plan]. This will mean that the final £150m funding requirement should be significantly reduced".

b) "To devise a strategy for full privatisation in the 1983 Corporate Plan which offers visible progress within the next two years towards privatisation by such means as the sale of minority equity stakes in BL's more profitable businesses; which builds on existing collaborative arrangements (such as Austin Rover/Honda) and seeks new opportunities for collaboration ...... in order to make BL's constituent businesses more attractive for ultimate privatisation; and which maps out possible routes for the full return of all parts of BL to private ownership by the late 1980s, setting target dates wherever possible".

4.3 In the two months after the despatch of Sir Michael's letter, and in the light of the agreement reached with the Government, BL prepared the fairly detailed privatisation strategy included in the 1983 Plan. They also kept in mind the first of the strategic objectives recently agreed with the Government*, on which the Plan is based, namely "to return all the constituent businesses, either together or separately, to the private sector as soon as practical; if the return of a constituent business carries the risk of reduced viability of the remainder, the issue should be put to the Secretary of State with options".

4.4 In the course of October, the BL Board decided, after receiving advice from their merchant bankers, Hill Samuel, that the act of privatising the profitable and cash generating sections of the business would have a severe impact on the ability to fund the remainder. With the companies added together and regarded as one entity, the Plan would meet the commitment that BL would not need further operational funding by the Government after 1984. However, if the profitable parts were sold, the residual business would require further operational funding because of heavy requirements for capital expenditure on new models just beyond the Plan period.

4.5 At a meeting with the Secretary of State towards the end of October, the Board said that on certain assumptions about the sterling exchange rate, market volumes, car prices and other factors, the Austin Rover business could be left with a requirement for external equity capital after the financial year 1983-84 if

* See the Chancellor's letter of 5 August 1982 to the Secretary of State for Industry (copied to E(NI)).

privatisation of Unipart and Jaguar went ahead. There were a number of ways in which this situation could be reconciled with the undertakings in Sir Michael Edwardes's letter of 4 August. Much would depend on the timing of privatisation of Unipart and Jaguar and on the out-turn of economic factors of the kind mentioned above. The development of the collaboration between BL Cars and Honda, which might lead to Honda taking a minority equity stake in Austin Rover, would be particularly crucial.

4.6 The Secretary of State held the Board to the commitments in the letter of 4 August. He reminded them that Sir Michael had given an undertaking both that no further Government funds would be required for maintenance of the business after the financial year 1983-84 and that there would be visible progress within the next two years towards privatisation by such means as the sale of minority equity stakes in BL's more profitable businesses. He said that he regarded both parts of this undertaking as remaining valid, but he had no wish to press the Board to reach a premature decision about how the objectives would be achieved. The BL Board accepted Mr Jenkin's point of view, and they have set out in the Foreword of the Plan the options for Austin Rover which they will examine to enable BL to meet the objective of privatisation while avoiding the need to call on the Government for further operational funding.

BL's Privatisation Strategy

4.7 The problem presented by Austin Rover will be discussed later in this chapter. A summary now follows of BL's strategy for privatising its other main businesses.

a) Unipart Group

The Unipart Group position is still being worked through. For privatisation, the vehicle companies (Land Rover, Jaguar and Austin Rover) must have adequate control over their service parts operations. At present, Unipart Group provides this service under terms which are satisfactory while the vehicle companies and Unipart are part of BL, but not if they are privatised and so owned separately. Discussions on revised, commercially "arms-length" contracts are being held with the vehicle companies, and the aim is to make a decision by the end of 1982 as to whether such contracts are feasible or not. If contracts can be agreed and drawn up during 1983, then Unipart Group will be a strong candidate for privatisation. 1984 would be the earliest possible date, but BL do not yet know whether this could be achieved. As a step towards privatisation, negotiations are in progress between BL and Burmah Oil about the possibility of forming a joint company between Unipart Group and Quinton Hazell, a components company owned by Burmah.

b) Jaguar

On the basis of the Corporate Plan projections for profitability and cashflow, BL and Hill Samuel agree that it would be possible to sell Jaguar in toto in 1984. However, this would involve an asset write-off of £105 million and earnings of £110 million would be lost in later years of the Plan, so the BL Board would be under an obligation to consider the position of the minority shareholders. Their assessment is that selling Jaguar in 1985 would give higher proceeds and little or no write-off.

The main factor affecting the method of privatisation is a judgment on whether Jaguar can stand completely alone or not. In BL's view, Jaguar needs access to both technical and financial support during periods of product renewal and financial support during weak business periods. Technical support could be provided by strong collaborative ties with another vehicle manufacturer, and for this BMW appears to be the main candidate. Much will depend on the way the current negotiations between the two companies develop. For financial strength, investors with access to substantial sums of cash are needed, and this points to disposing of a substantial stake in Jaguar to a single investment entity.

c) Land Rover and Leyland Groups

BL's preferred strategy is to privatise the two Groups as one entity, Land Rover - Leyland Ltd. However, this depends on Leyland Vehicles' recovery. The events of 1983 will give a clearer picture of what will be possible and, because of poor financial results, no privatisation could take place until 1984 at the earliest. If, towards the end of 1983, it becomes clear that the preferred strategy is not practical within a reasonable timescale, steps will be taken to sell a minority stake in Land Rover UK Ltd.

Accordingly, the following strategy is proposed by BL:

i) For 1983, keep Leyland Vehicles Ltd and Land Rover UK Ltd as substantially separate management and legal entities under the ownership of Land Rover-Leyland Ltd.

ii) Establish now the legal and administrative structure needed to privatise the two Groups as one entity.

iii) If Leyland Vehicles' recovery and Land Rover's progress are as planned in the second half of 1983, develop action plans for the privatisation of Land Rover-Leyland Ltd, either in whole or in part, as early as possible. If the planned results for 1983 are fully achieved, this could conceivably be in 1984. However, in order to give time for a reasonable "track record" to be establsihed, 1985 or later is more likely.

iv) If events in 1983, even if they do not dictate that Leyland Vehicles should be closed, show that combined privatisation is likely to be significantly delayed, consider selling a stake in Land Rover UK in 1984. BL do not yet know at what precise stage next year their Board will be taking a view on this.

v) If Leyland Vehicles Ltd does not recover and is declared beyond reach, and the bulk of the business has to be closed, then plan to sell Land Rover UK Ltd and the overseas companies in the Group and liquidate the residual Leyland Vehicles assets.

The Prospects for Early and Visible Progress

4.8 It is accepted by BL that the two years within which the Government expect to see visible progress towards privatisation date from Sir Michael Edwardes's letter of 4 August to the Secretary of State; and that visible progress entails that by August 1984 some of BL's constituent businesses will have been privatised (either in whole or in part) or a public announcement will have been made of their imminent privatisation, either in whole or in part. BL realise that the Government would obviously prefer a sale to an announcement.

They have agreed that the constituent businesses for this purpose comprise Austin Rover, Jaguar, Unipart, Land Rover, and Leyland Group, and that visible progress has to be made in privatising at least two of these businesses. They have also agreed that to meet their commitment to reduce significantly the final £150m of Government funding envisaged in previous Corporate Plans, they should aim to cut this figure by around £50m. BL will try to fund this portion of the final £150m out of the proceeds of privatisation. However, as no proceeds are expected before 1984 at the earliest, they have assumed in the Plan an increase in borrowing for 1983-84 to offset the £50 million reduction in Government equity in that financial year.

4.9 Taking the businesses in the same order as before, our assessment is that there is a reasonable chance of at least partial privatisation of Unipart within two years. If a joint company can be formed between Unipart Group and Quinton Hazell this would strengthen the Unipart "all makes" and SU Butec operations (those parts of Unipart Group which are not entirely dependent on Austin Rover, Jaguar and Land Rover). However, much remains to be done before a practical proposal can be made. In particular, a firm position on the service parts contracts with these three companies will not be reached until the end of this year. So far, discussions with Austin Rover and Jaguar are at an advanced stage, but the contracts would only be for a duration of three to five years, which would be likely to affect adversely the valuation of the Unipart business. The Quinton Hazell position will not be finalised until early in 1983.

proposal (conveyed to the Department informally) is that the merged company formed from Quinton Hazell and Unipart should have a BL majority and a private sector minority - possibly Burmah Oil themselves initially, who would then sell out to minority holders (probably financial institutions). We understand that the BL Board have discussed this in general terms, and have agreed that Mr Ray Horrocks should contact Burmah and Quinton Hazell for the further information which would be needed before a final decision could be taken. This proposition apart, the projections for the Unipart Group's profits and cash flow included in the 1983 Plan are less good than those in the 1982 Plan, but, if achieved, they would still be sufficiently good to justify BL's hopes of privatisation 1984 or 1985.

4.10 Jaguar is clearly regarded by BL as the front-runner in the privatisation stakes. It is the only business for which BL have so far obtained an up to date valuation from Hill Samuel. There has been a remarkable recovery in the business in the past year, and the financial projections included for Jaguar in the 1983 Plan show that there are good prospects of meeting the objective of privatisation (either partial or total) in 1984 or at least making an announcement in 1984 of privatisation in 1985. However, the Board point out that selling Jaguar in 1984 would involve a write-off of around £105m in the value of the assets and also a loss of about £110m in the earnings which Jaguar would otherwise bring to BL in later years of the Plan. The Board say that they would be under an obligation to consider the position of the minority shareholders in these circumstances, as selling in 1985 would give higher proceeds and little or no write-off. We have asked BL for a note on their point about the position of minority shareholders so that we can assess, in the light of legal advice, whether there is any substance in it. It is the sort of point in which, given the duty of Boards of Companies Act companies to have regard to the interests of all their shareholders, the Public Accounts Committee could be expected to take an interest. However, at first sight it could probably be argued convincingly that the only reason why the shares in BL held by the minority shareholders have any residual value at all by now is the huge investment which the Government have made in the company.

4.11 From a financial point of view, it would be better for BL as a whole if Jaguar were not privatised until 1985. From Jaguar's point of view, it might not be beneficial to remain with the rest of the BL Group for too long. However, even from Jaguar's point of view, there are arguments for privatisation taking place in 1985 rather than 1984. The new XJ40 model is being launched in 1984, and if privatisation took place in that year it would not be known beforehand whether the new model was a success. Moreover, if any technical problems became apparent soon after the launch, it would be easier for Jaguar to obtain help from BL Technology if they were both still part of BL. In the light of these considerations, it would be best to leave the initiative with the BL Board to make proposals to the Government about the best timing for the privatisation for Jaguar as long as they keep to the commitment which they have made to the

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COMMERCIAL IN CONFIDENCE

Government on early progress toward privatisation. It would be open to the Government, when they received BL's proposals in relation to Jaguar, to seek independent advice on such matters as the timing and likely proceeds of the disposal.

4.12 As to the method of privatisation, we would not dispute BL's view that Jaguar needs access to both technical and financial support during weak business periods. Negotiations have been in progess for some time between BL and BMW about possible collaboration in such fields as production of a new joint model and joint marketing in certain areas. We understand from Mr Horrocks that there has been some delay since the last round of discussions between the two companies. He thinks it possible that BMW have been holding back in order to see what the Government's views would be on the question of BMW eventually gaining control of Jaguar. Following consultation of DoI Ministers, Dr von Kuhnheim (Chairman of BMW) has been told:

a) that the Government would be unlikely to favour outright sale of Jaguar to a foreign company, or any arrangement under which eventual control went outside the UK;

b) provided it arose in the context of a commercial collaboration negotiated with BL, the Government would be content with an arrangement under which BMW took a minority stake in Jaguar, or established a joint company or companies to pursue particular pieces of collaboration, or indeed if there were collaboration without the setting up of a joint company.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

4.13 Dr Von Kuhnheim's reaction was that foreign control over Jaguar would destroy the company, and for that reason BMW would not seek to gain control. However, he was quite open to the possibility of collaboration between the two companies on a number of fronts. The prospects for this should be clearer when they next meet.

4.14 The BL Board are doubtful about Jaguar's ability to stand entirely alone. Given that collaboration with BMW might provide the necessary support on the engineering side, Hill Samuel have been asked to consider the financial aspects of independence. Kleinworts have already advised that, in principle, institutional funds could be found to buy Jaguar. It would seem that BL are, in general, proceeding in a sensible manner with regard to the privatisation of Jaguar.

Land Rover - Leyland

4.15 We are inclined to the view that BL's preferred vehicle for privatisation of these businesses - a combined Land Rover - Leyland Ltd - would be too large to interest a single potential purchase in 1984 or 1985 (as the company envisage), though it might be of some interest to financial institutions. The projections of profit and cashflow look satisfactory for 1984 and even better for 1985 onwards, but there must be serious doubt about whether such good results will be achieved. The Board themselves acknowledge this in relation to the Leyland Group. In view of this, we doubt the wisdom of creating now a single legal entity to bind the two operations more closely together. This might create extra problems later on if the two need to be privatised separately. We also have the impression that BL may be overplaying the synergies between Land Rover and Leyland. The Secretary of State for Industry has already urged the BL Board to consider whether it would be possible to attract interest from the financial institutions in a partial flotation of the combined Land Rover - Leyland business in 1984 or early 1985, and has offered to facilitate discussions betwen BL and the Bank fo England to this end.

4.16 BL envisage that, if towards the end of 1983 it becomes clear that their preferred strategy is not practical within a reasonable timescale, steps should be taken to sell a minority stake in Land Rover UK Ltd as soon as possible - probably in 1984. In our view, if Ministers decide to approve the 1983 Plan, it would be as well to say to BL in the letter conveying approval that Ministers want this option to be kept fully open, and for this reason they would prefer the Board not to proceed now with any measure, such as creating a single legal entity to bind the Land Rover and Leyland operations more closely together (unless this were no more than a holding company), which would make privatisation of Land Rover on its own more difficult to achieve.

Austin Rover

4.17 As mentioned in paragraph 4.5 above, one of the main issues identified in the 1983 Plan is the poor results projected for the Austin Rover business and the need for further action to be taken to resolve the issue. In previous Plans the problem has been to some extent masked because projections have been given for BL Cars as a whole. However, the Plan contains little that is new on the subject of Austin Rover, although some of the issues are spelled out in more detail by BL than has been the case previously. BL have always argued, and the Government have at least recognised the argument, that Jaguar or Land Rover should not be sold off separately but should be retained with volume cars as one entity to be sold off in one block. The argument rested on the premise that over the next five years or so the volume cars side of the business would not be attractive to prospective purchasers, but that with the inducement of Land Rover and/or Jaguar, the likelihood of disposing of volume cars (as part of a package) would be enhanced - even if some dowry might still be required. This is still very much the argument of Option 2 for Austin Rover in the Foreword to the Plan.

4.18 The slightly new departure is Option 1, where BL intend to explore the possibility of improving Austin Rover's performance still further in order to raise its financial results in the coming years to commercially acceptable levels. The outlook - at least on the five year timescale we are considering - does not look promising; but in previous recent plans it has been taken more less as fact that the volume cars side of the business could not be transformed in this period into a separate saleable entity. It has also been recognised that even in the longer term, BL could not be viable as a fully integrated and independent volume car producer. Collaboration has been seen as a way of helping to overcome this problem. In this Plan, the proposed collaboration with Honda is identified as an important opportunity. The possibility exists of forming a joint company with Honda to manufacture the Triumph Acclaim "facelift" for both companies and this approach could well be extended later to embrace the new XX executive model. This link with Honda would strengthen Austin Rover in many ways, by providing some capital equipment at little or no cost, by helping to improve operating efficiency, and providing the vitally needed increase in production volumes. It would also make it more attractive to private investors. News of whether the joint company approach is likely to proceed is expected at the end of January 1983.

4.19 We have considered whether, as BL propose, the options relating to Austin Rover can await evaluation in the 1984 Corporate Plan. Our conclusion is that they can, because the measures of privatisation (of Jaguar and Unipart) that would trigger the problem will not take place until 1984 at the earliest. Moreover, there is also the need to see whether the LM10 is a success and whether further collaboration with Honda is likely to proceed. We understand that Mr Ray Horrocks has in mind a review of the Austin Rover business next year some months earlier than would be necessary for the 1984 Plan. Clearly, the Government will need to be informed of the results of this exercise.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

Restoration of BL's Balance Sheet

4.20 Sir Michael Edwardes's letter of 4 August contained a paragraph spelling out the only circumstances in which (besides the triggering of the Varley/Marshall/Joseph assurances to creditors in the event of collapse of the business) Government funds might be needed after the cessation of operational equity funding in 1984. The paragraph runs as follows:

> "We have an unacceptable balance sheet for privat sector purposes, and as we privatise we will need to remedy the position for those companies taking on outside shareholders or joining the private sector. There might be a need for Government finance immediately prior to privatisation, but the aim would be at least to recover any outlay by the proceeds of disposal."

4.21 In the past few months BL have prepared a strategy for privatisation and not a detailed plan of implementation. They consider that there is a strong likelihood of further financing requirements both during the period it continues as parent of the operating companies and after all its subsidiaries have been sold. As an illustration of the implications of a sale during the privatisatiion process, some preliminary calculations have been made on the assumption that all the equity of Jaguar is sold for £70m at the end of 1984. In that instance, the funding implications might be as follows over the period 1985 to 1987 (the last year covered by the Plan).

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

ILLUSTRATION: FUNDING IMPLICATIONS OF SALE OF JAGUAR

	£
Proceeds from sale	+70
Loss of Plan operational cash flow in 1985-1987, before financing	-51
	+19
Financing costs of borrowing no longer assumed by Jaguar (say £100m for 3 years)	-30
Increase in funding requirement 1985-1987	-11

In addition to the above incremental funding requirement of £11m, a major asset sale could have an unfavourable effect on the overall borrowing capacity of BL, implying greater exposure for Goverment. On the assumption that privatisation is completed by the end of 1987, BL have estimated the liabilities which the Government will face under the Varley/Marshall/Joseph assurances. These liabilities arise because it is not considered that BL could, on being privatised, support Plan levels of borrowings and such borrowings would therefore need to be refinanced. By the end of 1987 BL group borrowings are forecast at £1,018m. BL consider that the proceeds of sales of subsidiaries would fail to meet BL's liabilities under these borrowings. Their more favourable calculation of the remaining liability reveals a further funding requirement of £120m; their less favourable calculation shows a further funding requirement of £500m.

4.22 It is, of course, possible (as BL say) that the sale proceeds could be higher than assumed in BL's more favourable case, especially in the case of Land Rover-Leyland if the Corporate Plan earnings forecasts are achieved and believed by the market to be sustainable.

On the other hand, the range of Government funding mentioned by BL may equally well be understating the size of the problem, especially if Austin Rover (where the bulk of the problem lies) had to be sold for less than, say, the 15 per cent of its asset value which was assumed in their less favourable assumption on disposal values.

4.23 In considering this question, the following factors should be borne in mind. Whatever the prospects for the Austin Rover business (whether there is a partial or total collapse, whether it performs in accordance with Plan, or whether it performs better or worse than Plan) the Government are committed by the Varley/Marshall/Joseph assurances to meeting BL's debts until full privatisation is complete (though the company have promised to explore the practicality of reducing the scope of the assurances as privatisation proceeds). Given this fact, it will be for the Government to decide, and the timing will be at their option, whether, and if so when to liquidate any rump of BL which cannot be sold by the late 1980s. If the current Austin Rover forecasts are achieved, any continuing funding requirement at that time should be able to be met by borrowing rather than the provision of equity capital, albeit backed by some form of Government assurance. If such borrowing had to be backed by a Government guarantee, it would be akin in resource terms to the provision of equity capital. However, Austin Rover are likely by then to be generating sufficient profits to service and repay their loans. Over a new model cycle taken as whole, they would be generating enough cash to satisfy their needs. However, like most other companies, they would need loans for cashflow reasons to finance capital investment at a particular stage in the model cycle.

Conclusion

4.24 The conclusion of this chapter is that there are reasonable prospects for visible progress towards the privatisation of Jaguar and Unipart in the next two years. A strategy has been produced for privatising the Land Rover and Leyland Groups together by 1985, but we have reservations about whether this is the best strategy available. The prospects for privatising Austin Rover are very poor, but BL have action in hand to deal with this problem in the course of next year without calling for further Government funds. Overall, our judgment is that the privatisation strategy which BL have prepared for the 1983 Plan fulfils the commitment given in Sir Michael Edwardes' letter of 4 August 1982. However, details of how the strategy should be implemented have not yet been worked out by BL, and it will be necessary for the Department of Industry to monitor progress on this in the course of next year.

V. SUMMARY OF CONCLUSIONS AND RECOMMENDATION

5.1 We conclude that BL as a whole is still on the course towards viability which has been plotted in previous years' Plans, although the prospect of eventual viability and the performance against previous Plans vary between the different constituent businesses. Our conclusions on the constituent businesses may be summarised as follows:

Austin Rover Group Holdings

5.2 The Plan for ARGH is broadly unchanged from last year. Achievement of the Plan is crucially dependent on the launch of the LM10 and LM11 within the next 18 months, and on the further development of collaborative links with Honda. Nonetheless, it is clear from the Plan that on current projections ARGH on its own will not become commercially viable within the Plan period, although the prospects for some sort of joint venture with Honda may be better. There must be considerable doubt about whether ARGH, in isolation from the rest of BL, could generate or borrow on its own surety sufficient funds to finance the model replacement programme which will become necessary in the late 1980s, and which will involve heavy capital expenditure just beyond the Plan period. This problem has been recognised for some years, but it is brought out more starkly in this year's Plan than previously because of the separate identification of forecasts for Jaguar, which had previously tended to obscure the position of ARGH within the Cars Group.

5.3 The poor results projected for ARGH suggest strongly that further action needs to be taken to resolve the issue. BL propose in the Plan a number of options for such action, and it is clearly important that these options are further developed as a matter of urgency. We know that Mr Ray Horrocks has in mind a wide-ranging review of the ARGH business next year some months earlier than would be necessary for the 1984 Plan, and this review will of necessity involve closer examination of the options which BL have identified. Given this review, and that the measures of privatisation (of Jaguar and Unipart) which would trigger the problem are unlikely to occur before 1984, and that the model replacement programme which is at the root of the problem will not take place until the late 1980s, we conclude that a detailed evaluation of these options can as BL propose await the 1984 Corporate Plan. It will however be important to ensure that any agreement about future collaboration reached in the meanwhile between ARGH and Honda does not prejudice any of the options.

Jaguar Group

5.4 The dramatic turn-round of the company has continued, and the company is well on course to commercial viability. If anything, we believe that the Plan slightly understates the prospects for Jaguar.

Unipart Group

5.5 The prospects for SU Butec, the Group's manufacturing operation, appear reasonable and are based on prudent assumptions. Achievement of the Plan for Unipart Division, the replacement parts marketing operation, depends crucially on achieving a substantial growth in sales in a more or less static "all makes" market. This will not be an easy task, and there must be a risk that the targets in the Plan will not be met. Nonetheless, we conclude that the Plan presents reasonable prospects of commercial viability for the Unipart Group as a whole.

Land Rover Group

5.6 The environment in which LR operate has not improved since last year, and may well have deteriorated. Economic difficulties abound in LR's traditional markets, and competition is intense. There are clearly risks to the achievement of the Plan. We are not convinced that sufficient management attention has in the past been paid to addressing these risks, but there are now signs - for instance, the attention which is now being paid to the company's product strategy - of the increased effort in this area which we believe to be necessary if the Plan is to be achieved. This increased management effort, together with the launch next year of the Stage 2 Land Rover, gives reasonable grounds for expecting that the company will be able to build on its well-established reputation and its good products and remain one of the more profitable parts of BL.

Leyland Group

5.7 The 1982 Plan for Leyland Group was admitted to be subject to substantial risks. Most of these risks related to Leyland Trucks, whose projections in several important areas, notably profitability, market share and productivity, have been missed. Although all European truck manufacturers have been experiencing a difficult year, there is clearly a major task ahead for Leyland Trucks, including making up the ground that has been lost against Plan this year. Experience so far does not suggest that the risks are any less than they were last year although they cannot be said to be any greater. Some economic indicators, notably the exchange rate, have moved in Leyland's favour although the intense competition from other manufacturers shows no sign of abating. The prospect of viability remains more or less the same as it was last year. Leyland Trucks' recovery is crucially dependent on how the market receives its new model ranges, the MT207 (the launch of which started this Autumn) and the MT211 (due to be launched in 1984). We shall need to continue to monitor performance very closely and the "benchmark" system will help us to pick up any adverse developments at an early stage. Meanwhile, the performance of the Group as a whole has been affected by problems in its overseas subsidiaries, although these problems do not appear to call for action as drastic as was needed for Leyland Trucks.

Privatisation

5.8 The privatisation strategy included in the Plan, although its detailed implementation has not yet been worked out, presents reasonable prospects for visible progress towards privatisation in the next two years. The firmest candidates are Jaguar and Unipart. A strategy has been produced for privatising Land Rover and Leyland Groups together by 1985, but we have reservations about whether this is the best strategy available. We therefore believe that BL should be required not to take any steps which would make the privatisation of Land Rover on its own more difficult to achieve. The prospects for privatising ARGH are poor, but BL are undertaking a review of the available options for ARGH and it should be possible to take a firmer view at the time of the 1984 Corporate Plan. The privatisation strategy which BL have prepared for the 1983 Plan is not a detailed timetable for privatisation, but in the light of all the commercial uncertainties we believe that it goes as far as possible towards demonstrating how privatisation is likely to proceed. We provisionally conclude, therefore, that the strategy fulfils the commitment given in Sir Michael Edwardes's letter of 4 August 1982, although progress towards its implementation will need to be closely monitored by the Department of Industry.

Funding

5.9 The 1981 and 1982 Corporate Plans envisaged the provision by the Government in 1983-84 of £150m equity in addition to the £990m which the Government agreed to provide in 1981-83. Of this £990m, £780m has already been drawn down, and it is probable that another £60m or so will be drawn down by the end of the financial year, leaving £150m to be rolled over to next year. However, in this Plan BL are seeking a further equity injection of £100m, not £150m as previously envisaged, making a total of £250m likely to be paid in 1983-4. This £50m reduction in BL's equity requirement is in anticipation of the proceeds of privatisation, although these proceeds will not be available during 1983-84 and BL will need to resort to extra borrowing as an interim measure.

5.10 The 1981 Plan projected a cash outflow over the period 1981-5 of £1526m, of which it envisaged that £1140m, or approximately 75%, would be covered by Government equity. The cash outflow for the same period projected in the 1983 Plan is somewhat lower, at £1445, but the proportion of this which it is proposed should be covered by Government equity remains at about 75% as a result of the reduction in BL's request for equity.

5.11 A series of statements on the Government's attitude to BL's obligations (the Varley-Marshall-Joseph statements) have made it clear that in the event of BL's being unable to meet its obligations they would be assumed by the Government. This undertaking creates a contingent liability on the Government in respect of BL's borrowing and creditors. BL's total borrowings at present amount to a little over £900m, and creditors to a little over £700m, and these totals are projected in the Plan to rise by 1987 to over £1000m and nearly £1150m respectively. The Government's contingent liability might therefore increase by as much as £550 over the Plan period, although this may be offset by any increase in the value of BL's assets. However, as privatisation proceeds those companies which are privatised will subsequently trade and borrow as commercial companies on their own surety, and this will tend to reduce the Government's maximum exposure.

<u>Recommendation</u>

5.12 The performance of and prospects for the component companies of BL are extremely variable. Some companies (eg Jaguar) are well on course to earning a commercial return in the next few years, and there are good chances of early privatisation. For others (eg Leyland Group) the prospect of a recovery is less certain. ARGH is unlikely to achieve commercial viability within the next decade as a wholly independent company, although the prospects for some sort of joint venture may be better. Nevertheless, in all parts of the company the investment of the last few years is starting to bear fruit as new model ranges come on stream. For the first time in many years, BL are not expecting any further Government equity beyond that they are requesting for the year ahead. BL have always argued that there would be a need in 1983-4 for a final injection of Government equity in order to enable the company to complete this recovery programme. We accordingly recommend that BL's request that £100m of equity should be made available in 1983-4, over and above the £150m or so of the £990m previously agreed which is likely to be rolled over to that year, should be approved. (Because of the uncertainties of cash forecasting, we cannot preclude the possibility that some part of this equity might fall to be paid in 1984-5). The provision of equity would of course be subject to performance and demonstration of need. Any substantial failure to meet the major financial targets of the 1983 Plan is covered by Sir Michael Edwardes's letter of 26 January 1981, a copy of which is attached at Annex 3.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

BL PERFORMANCE IN 1982

I INTRODUCTION

1 This comparison of performance in 1982 with that projected in the 1982 Plan takes as its starting point the forecasts for 1982 continued in the 1983 Plan. These were made on the basis of the year to August (the "8 + 4" forecasts); more recent forecasts (the "10 + 2" forecasts) are now available, and are referred to where appropriate; significant differences arise in the case of cashflow and capital expenditure, and these are explained below. This Annex continues with the classification of the Groups employed in the 1982 Plan: the 1983 Plan and latest forecasts are on the basis of the Groups as now reconstituted. Cars Operations consists of Austin Rover Group Holdings and Jaguar (the old Cars Group, but with BL Technology added to ARGH) and Unipart. Land Rover-Leyland consists of the two Groups unchanged, and both separate and combined financial tables are given in the 1983 Plan.

II ECONOMIC BACKGROUND TO 1982 PERFORMANCE

2 The Inter-Departmental Group paper on the 1982 BL Corporate Plan considered that on the general level of activity BL were "relatively pessimistic" but that, overall, the economic assumptions

forecast seemed "reasonably central". In the event, by contrast with 1981, BL's view of the world was fairly well borne out. UK competitiveness benefited from lower than expected inflation. On the other hand, until recently the pound remained strong against European currencies; and a faster than expected reduction in UK-European price differentials kept up pressure in a domestic car market already characterised by intense competition.

3 The state of the UK and world cars and commercial vehicle markets are considered below. BL's own projection of these, and the latest forecast outturn, are as follows:-

UK markets: Total industry volumes (TIVs)

(000s)	10 + 2 forecast	Plan	Memo: 1981
Cars	1549	1455	1485
Car derived vans	62	55	59
Light Commercial (PV2 Sector)	57	56	53
Trucks	45	40	45

III PROFITS, REVENUE AND COSTS

4 PBIT in 1982 is expected to be better than Plan for BL. This is entirely due to the performance of Cars Group, with the other Groups performing rather below Plan. However, in all cases, revenue is below budget - as a result of lower volumes or margins or both - so that even Cars Group owes its PBIT performance to reduced costs.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

		Cars	Unipart	Leyland	Land Rover	BL*
Revenue:	(£m)	1740	335	797	438	2978
Better/(worse) than Plan		(62)	(64)	(122)+	(38)	(302)
PBIT:	(£m)	(105)	11	(29)	8	(134)
Better/(worse) than Plan		17	(2)	(38)+	(4)	11
Retained Earnings	(£m)	(181)	4	(41)	(10)	(301)
Better/(worse) than Plan		43	(2)	(24)	(5)	19
Economic profit/ revenue	(%)	29	28	21	30	30
Better/(worse) than Plan		3	3	(2)	1	2
Fixed costs less dep'n/ revenue	(%)	30	24	22	24	30
Better/(worse) than Plan		(2)	(2)	(4)	(1)	(2)
Sales volumes	(000)	423	NA	49	66	517
Better/(worse) than Plan		(26)		(3)	(3)	(32)
Market share UK	(%)	18	NA	14	NA	NA
Better/(worse) than Plan		(2)		(2)		

*Total BL figures include other companies, Leyland Group contingency provision and central consolidation, not shown separately.

+The effects of these shortfalls on the total BL figures were mitigated by the inclusion in the Plan of central contingency provisions against such shortfalls, of £52m revenue, £40m PBIT.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

5 The following table summarises BL's explanations of PBIT variance from Plan in 1982, based on the 1983 Plan forecast for 1982. The table shows that PBIT in 1982 will be better than Plan for BL as whole, entirely due to better than Plan performance from ARGH and Jaguar, partly offset by varying shortfalls in other parts of BL. Although a better than Plan performance is indicated for Leyland Group, this result only appears after using up a £40m PBIT central contingency and, moreover, does not reflect the latest forecast which suggests a somewhat worse performance.

Analysis of 1982 PBIT variance from Plan (£m)

Explanation	BL	ARGH	Jaguar	Unipart	Land Rover	Leyland	Other
UK Demand	(22)	-	-	(16)	-		-
Pricing	)	-	-	-)		)	-
	) (7)			)	(6)	) (6)	-
Exchange	)	(3)	8	-)		)	-
Cost performance/ market share	45	13	(1)	14	8	13	(2)
Export volume	(5)		-	-	(6)	1	-
TOTAL	11	10	7	(2)	(4)	2	(2)

IV CASHFLOW AND ASSETS

6 The cashflow and asset position is summarised in the following table:-

		Cars	Unipart	Leyland	Land Rover	BL*
Cashflow in/(out)(£m)		(320)	(10)	(130)	(46)	(524)
Better/(worse) than Plan		14	(12)	(33)*	(6)	33
Capital expenditure	(£m)	(142)	(11)	(58)	(40)	(267)
Lower/(higher) than Plan		21	(2)	(1)	8	49
End-year working capital	(£m)	209	122	189	99	622
Lower/(higher) than Plan		28	23	(5)	10	62
End-year total assets	(£m)	710	159	432	267	1620
Lower/(higher) than Plan		79	20	22	15	135
Manpower	(000)	48	5	31	14	103
Lower/(higher) than Plan		4	1	-	2	9

*A provision of £55m was made centrally against such worse than Plan Leyland Group Cashflow.

7 This table is based on the "8 + 4" forecasts, those contained in the Plan. However, following a detailed review of expenditure to date, BL estimate that capital expenditure in 1982 will probably now total no more than £235m, compared with £267m shown in the 1983 Plan and £316m forecast in the 1982 Plan. The 1982 budget contained an aditional £54m capital expenditure deferred from 1981. Altogether BL estimate that about £95m unspent in the 1981 and 1982 capital programmes will be re-phased into later periods. The company have stressed that no major capital programmes have been delayed, and believe that these programmes will, over time, incur the same total expenditure as envisaged in the 1982 Corporate Plan.

8 Working capital ended 1981 at a level below that assumed in the 1982 Corporate Plan, largely owing to lower Cars Group inventory as a result of the strike. Whilst this Cars Group shortfall had to be made up to some extent over the year, the whole company is still expected to finish 1982 with a lower than Plan working capital level. Although the latest (10 + 2) forecast is for a £50m lower end-1982 working capital than is assumed in the 1983 Plan, at £572m, there is an element of risk to the achievement of the Leyland Group forecast, which depends on certain export shipments getting clearance before the end of the year.

9 This cashflow is being funded by a combination of equity and medium-term loans, with short term borrowings being run down. At the end of 1981, BL negotiated £277m of new medium term loans, £202m of which has now been drawn down. To some extent, these were to replace short-term borrowing which had for some time been providing, in effect, medium-term finance. £260m of equity finance was provided during the year, £180m in October and £80m in December.

IV CARS GROUP

10 Until hire purchase controls were abolished in July, the UK market for cars was running 2% below the already depressed 1981 level. Since then the added stimulus of falling interest rates has given the market a much-needed boost which is likely to carry over into 1983. But markets elsewhere in Europe have been depressed all year, with competition correspondingly intense and sales offering a low return. The relative strength of sterling compared with other European currencies has made Britain an attractive place in which

to sell cars. Foreign producers, with their lower production costs have been able to hold down prices to maintain or even improve market share while still getting a better return than in Continental Europe. UK manufacturers have been obliged to join in the price-cutting war though less well-placed to do so because of their higher production costs. Despite having to spend money on discounts to dealers and marketing campaigns, Cars Group have managed to keep total costs within Plan levels. As a result, they have shown a slightly better than Plan PBIT, coming from slightly lower than Plan revenue. Because the growth in the UK market has been most marked in the upper medium sector, where BL's product range is weakest, they have not fully benefited from the larger market and their share has been less than Plan. Metro, which held on to its share of the small market sector, also had a lower then Plan share of the total market.

11 Jaguar has benefited from the strong dollar and from great improvements in perceived quality. Following the reorganisation of BL in October, seperate figures have become available for Austin Rover Group Holdings (ARGH) and Jaguar. The 10 + 2 forecasts are thus not directly comparable with figures for the old Cars Group, because of inter-company trading (which does not of course show up when the transactions take place within a single Group) and the addition of BL Technology to ARGH, but they illustrate the variation in Jaguar and ARGH performance.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

Jaguar

	F'cast	b/(w) than budget	
PBIT £m	12.5	8.8	(F'cast = 338% of budget)
Revenue £m	312.9	46.7	(F'cast = 118% of budget)
Export revenue £m	167.0	34.1	(F'cast = 126% of budget)
PBIT/revenue %	4.0	2.6	
PBIT/assets %	12.3	8.8	
Unit wholesales 000	21.5	2.0	(F'cast = 110% of budget)
Cashflow £m	(26.5)	16.6	
Capital expenditure £m	39.1	(9.1)	
EP/sales %	28.7	0.9	
FC/sales %	22.4	(0.4)	

Austin Rover

PBIT £m	(115.0)	23.1	
Revenue £m	1512.0	(88.6)	(F'cast = 94% of budget)
Export revenue £m	209.0	(58.5)	(F'cast = 78% of budget)
Unit wholesales 000	398.7	(34.1)	(F'cast = 92% budget)
Cashflow £m	(225.8)	183.5	
Capital Expenditure £m	101.2	(66.2)	
EP/sales %	29.3	3.8	
FC/sales %	31.5	(3.5)	
Market share	17.3	(2.2)	

VII UNIPART

12 The profit shortfall appears to have arisen in the parts business, with the component manufacturing business (SU Butec) performing satisfactorily. Both export and domestic sales have been affected: exports by economic difficulties in major Middle Eastern and African markets, domestic sales by the loss of distributors, and destocking, as a result of the economic climate and lower car sales in the past which have hit current demand for parts. An attempt to break into the market served by independent "factors" (who hold stocks of parts for supply to small garages) through the "Express Factors" scheme has met with some initial success, but has not yet gained widespread participation.

VIII LEYLAND GROUP

13 In 1981, sales of commercial vehicles were depressed worldwide, but were particularly so in the UK where they slumped 20% below the already depressed 1980 level. The limited recovery in 1982 has been concentrated primarily in the van sector, sales of trucks remaining severely depressed. Competition for sales has been understandably intense, with importers better able to hold or reduce prices as a result of their lower production costs and the relative strength until recently of the pound.

14 The following table gives latest forecast performance for Leyland Group broken down into its principal UK operations, Leyland Vehicles Limited (LVL), and the major overseas subsidiaries, in India and South Africa. The Leyland Truck division of LVL is also identified separately.

	Leyland Truck	LVL*	Ashok (India)	South Africa	Other	LeylandGroup
PBIT £m	(70.0)	(53.5)	13.7	7.3	(4.7)	(37.2)
B(w) than budget	(15.1)	(25.2)	(7.4)	(7.0)	(6.5)	(46.1)+
Revenue £m	289.7	410.8	163.9	85.8	5.1	665.6
B(w) than budget	(77.1)	(92.7)	(75.2)	(71.5)	(14.2)	(253.6)+
Sales volumes 000	15.5	Not available				41.3
B(w) than budget	(2.2)					(11.1)
Cashflow £m	(80.4)	(81.9)	(30.6)	(8.4)	(14.6)	(121.5)
B(w) than budget	(10.2)	(25.4)	(6.2)	(2.5)	(12.7)	(46.8)+
Capital expenditure £m	Not available					46.4
More (less) than budget						(37.8)
Market share %	13.3		NA			NA
B(w) than budget	(2.5)					

*Includes Truck, Parts, Bus and consolidations.

+Contingencies were held centrally, to offset performance shortfall, of £40m PBIT, £52m revenue and £55m cashflow.

15 It is apparent from this that LVL, where the performance shortfalls were expected to occur (against which central contingencies were provided in the 1982 Plan), is only responsible for just over half the expected PBIT shortfall, and two thirds of that on cashflow. The bulk of the residual shortfalls occur in the two major overseas operations. These, although consolidated into Leyland Group, do not rely on the centre for funding.

16 LVL's financial results were affected by, among other things, the four-and-a-half-week strike in January and February at Leyland Vehicles plants, over restructuring plans. This ended with the acceptance by the workforce of these plans and their associated redundancies in full, since when the workforce has cooperated fully in the implementation of the measures. This is not to say further problems may not arise as restructuring continues; but the real risk of a total breakdown in workforce co-operation (seen in the 1982 Plan) seems to have receded. A number of other factors have combined, however, to prevent Plan targets being achieved for the remainder of the year. With the UK Truck market now expected to be, at 45,000, no higher than in 1981 (albeit better than BL's Plan assumption), pressure on prices has been intense, and is particularly acute in the case of the older models on which LVL has had to rely heavily for its sales. This lack of a complete modern product range is gradually being rectified, with the replacement for the Boxer light medium truck launched in October; the replacement for the Terrier light truck, in a sector of the market taking a third of UK

sales, will be launched in 1984. Both market share and profitability have therefore to be seen in the context of the lack of a full, competitive, product range. Export sales have also suffered from the economic difficulties of major African markets, for example Nigeria which is now expected to take only 1,800 of a predicted 3,300 sales in the year. The necessary restructuring of truck production - involving the concentration of production onto three sites - and in particular the expansion of assembly at Leyland, has caused some temporary dislocation, resulting in failure to meet supply targets. Where there are already established new models - in the medium and heavy range - however, demand has been good. Despite the intense competition, profitability targets are now beginning to be met, owing, to a large extent, to successful control of material costs.

IX LAND ROVER

17 The PBIT shortfall is due to a change in the pattern of Land Rover Ltd's sales in 1982: although total sales are only expected to fall off slightly, the mix has changed in favour of European markets where margins are lower than in the Third World. African and Middle Eastern sales were affected by the economic and political problems of certain oil-producing countries, such as Nigeria and Iran, both major markets. These factors mean that the current forecast profits must be placed in doubt, despite the prospect of overall sales at or near Plan levels.

18 Freight Rover sales have been satisfactory, following the launch in June of the remodelled Sherpa van, and the recovery of the van market. Freight Rover have been making trading losses within budget and are expected to be trading at breakeven by the year end.

ANNEX 2

REGIONAL IMPLICATIONS

The regional implications of the Corporate Plan arise both out of BL's own closure plans and out of the effect on component suppliers of any resourcing by BL.

BL Closures

2 Closures or partial closures are planned for plants which fall within the Birmingham and Bathgate Travel-to-Work Areas (TTWAs). In addition the future of plants within the Coventry and Bristol TIWAs are to be subject to review. Table A illustrates the sort of impact that these closures will have on the unemployment rates. Closures in Birmingham, Coventry and Bristol will not, on their own, lead to a marked deterioration in the unemployment rate or undue pressure for Assisted Area status (all these areas are currently non-Assisted).

3 The closure at Bathgate in late 1984 would have the most serious regional implications. Unemployment in the TTWA - already high at 22.5% (October) - would rise by nearly 2%. The current average for all Special Development Areas (SDA) is 19.1%. Part of the TTWA - Livingston New Town - is already an SDA; the remainder is a Development Area. There would undoubtedly be further pressure for uniform SDA status. The Government have however given a

public commitment not to make further changes in the Assisted Area map during the rest of this Parliament other than in the most exceptional circumstances.

Component sourcing

5 Any significant switch by BL to overseas sourcing for their components would undoubtedly affect the West Midlands. It is impossible to estimate the likely effect on such places as Oakengates (current unemployment rate 20.5%), Walsall (18.9%), Coventry (17.6%) and Birmingham (18.0%) without precise knowledge of the suppliers which are most at risk and their location. If a change in BL's component sourcing policy led to any significant increase in unemployment in the area, there could be further political pressures to grant Assisted Area status to parts of the region.

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COMMERCIAL IN CONFIDENCE

TABLE A

ESTIMATED EFFECT OF BL CLOSURES ON UNEMPLOYMENT RATES

TTWA	Unemployment October 1982 Nos	%	No of Redundancies	Post closure unemployment (based on October '82 figures) Nos*	%*
Birmingham	125,788	18.0	minimal	Not known	18.0
Coventry	42,642	17.6	270	42,858	17.7
Bristol	36,628	11.2	633	37,134	11.4
Bathgate	11,175	22.5	1,000	11,975	24.1
all SDAs	-	19.1	-	-	-
all DAs	-	16.6	-	-	-
all IAs	-	15.8	-	-	-
GB	-	13.6	-	-	-

* - assuming that all the redundancies had already taken place, and that only 80% of those made redundant had claimed unemployment benefit.

ANNEX III

RECEIVED IN
26 [illegible]
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

26th January 1981

TO Mr Bowder
PLEASE BY:
Noon
2/2/81.

COPIES TO
PS/MT
PS/MM
PS/[illegible]
Mr Steele
Mr Mountfield

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1.

Dear Secretary of State,

The Board believes that BL's 1981 Corporate Plan offers - subject to the risks and qualifications which are made clear in the Plan - the best feasible prospect of bringing about the recovery of the business.

As you know, recovery will take time, and during this period the risks to the survival of whole sections of the business will remain considerable. While it should be possible for the business to accommodate the normal trading fluctuations within the framework of the Plan, the achievement of competitive cost levels is essential to ensure our survival. As we have made clear in recent weeks, even the success of a particular new model such as Metro cannot allow us to relax the strict discipline which has to be exercised on all aspects of our cost structure.

Government approval of our Plan and funding request would not change this situation, because it is our own performance in the external competitive environment which fundamentally determines whether or not the business can survive. Dealers and customers would simply walk away from the company if there were a major strike. Moreover, they would desert us more gradually, but no less surely, if we allowed our costs to rise to uncompetitive levels - or indeed if it seemed to them that the necessary funds would not be sought from Government.

Continued

Circumstances may arise in which, through a substantial deviation in performance or an appreciable departure from the assumptions underlying it, the Corporate Plan is clearly not being achieved and it appears impossible to bring about recovery within the timescale envisaged. This could arise for external or internal reasons; an example would be a major strike which damaged or appeared certain to damage any substantial sector of the business. In such circumstances the Board would, in accordance with section 1 of the Plan, very quickly initiate a review (in consultation with the Government) of the Plan of the relevant business group, with consequent implications for continued Government funding.

The Board will, of course, be monitoring progress under the Plan regularly in the normal course of its business and in the context of the annual updating of the Plan towards the end of 1981.

In our recent discussions on the Corporate Plan, you also asked me to confirm to you the views of the BL Board on the importance of collaboration in our recovery strategy for each of our main business groups.

The Board sees collaboration with other manufacturers as an important part of its strategy for recovery and for reducing and eventually removing dependence on Government support. This might take the form of collaborations on major components or on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might well grow out of such collaboration.

Yours sincerely
Michael Edwardes.

ANNEX 8

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

4th August 1982

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1.

CONFIDENTIAL

Dear Secretary of State,

Further to the very constructive meeting which you had with the BL Board on 6th July, it may be helpful if I confirm the Board's position on the matters we discussed.

With regard to privatisation, I confirm that it is the Board's objective to return BL in whole, and probably by instalments, to the private sector as soon as practicable. We acknowledge the wish of Government to show early and visible progress to this end, consistent with maintaining the recovery strategy in the Corporate Plan.

Prior to the meeting, we had tabled for illustrative purposes a profile indicating one of the possible routes to full privatisation which will be examined in the privatisation strategy which is being developed for the 1983 Corporate Plan. Until the necessary studies for the 1983 Plan have been completed, it would be unproductive to try to set out the other available options for achieving a return to the private sector or to be more specific about the individual actions which will comprise each option. However, the Board believes

Continued.. ..

the Board believes/

that it can offer a broad commitment to the Government on certain issues, based on the following assumptions:-

1. that the Board will be able to appoint one of the present non-executive Directors as Chairman * (I am now putting to the Board the formal proposal that Sir Austin Bide and Sir Robert Hunt should be appointed non-executive Chairman and Deputy Chairman respectively);

2. that the Government consequently approves the Board's proposals for succession which provide for the maximum continuity at Board and top management levels;

3. that an objective on the lines set out in my second paragraph above will be agreed between the Board, the new Chairman and the Government;

4. that the Government does not proceed with its proposal for the total disposal of Land Rover, while satisfactory progress is being made towards the achievement of (a) and (b) below;

5. that, subject to approval of the 1983 Corporate Plan the Government agrees to provide, in addition to the £990m already committed, such part of the £150m equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests (see (a) and (b) below) and which can be demonstrated to be needed to fulfil the Plan; and

6. that the major financial targets in the current Corporate Plan are broadly achieved each year, as is expected to be the case for 1982 - non-achievement is of course covered by my letter of 26th January 1981 to your predecessor.

Continued..

* All the directors support it in fact. U:

On these assumptions, the Board commits itself firmly to the following specific objectives within the overall objective enunciated above:-

(a) To limit BL's requirement for Government funding to the amounts referred to in 5 above. This will mean that the final £150m funding requirement envisaged in previous Plans should be significantly reduced and that, subject to receipt of the balance of the funds already approved by the Government, there will be no further Government funding requirement for maintenance of the business after the financial year beginning in April 1983. The only circumstances in which Governmer funds might be needed thereafter would be:-

i. In the event of a total or partial collapse of the business, the Varley/Marshall/Joseph assurances that the Government will meet BL's obligations would be triggered; the Board sees no possibility of the Government being relieved of these assurances until full privatisation is complete, but the Board will explore the practicality of reducing the scope of the assurances, e.g. the possibility that in conjunction with the sale of minority equity stakes certain subsidiaries might be able to borrow externally on their own account without the comfort of the assurances.

ii. We have an unacceptable balance sheet for private sector purposes, and as we privatise we will need to remedy the position for those companies taking on outside shareholders or joining the private sector. There might be a need for Government finance immediately prior to privatisation, but the aim would be at least to recover any outlay by the proceeds of dispos als

Continued.. ..

The Rt.Hon. Patrick Jenkin, MP,
Secretary of State for Industry.

4th August 1982

(b) To devise a strategy for full privatisation in the 1983 Corporate Plan which offers visible progress within the next two years towards privatisation by such means as the sale of minority equity stakes in BL's more profitable businesses; which builds on existing collaborative arrangements (such as Austin Rover/Honda)) and seeks new opportunities for collaboration (such as the informal approaches we have made to International Harvester, DAF and more recently Volvo about links with our commercial vehicles business) in order to make BL's constituent businesses more attractive for ultimate privatisation; and which maps out possible routes for the full return of all parts of BL to private ownership by the late 1980's, setting target dates wherever possible.

(c) To make a public statement this autumn (if possible at the press conference for BL's half-year results on 15th September) underlining the Board's commitment to privatisation. A draft of such a statement is attached.

Yours sincerely
Michael Edwardes

Enc:

FOR HALF YEAR STATEMENT

PRIVATISATION

As I said in my report to shareholders in March of this year, the division of BL into separate operating units increases operating efficiency and also makes it easier to inject private sector funds into some or all of these businesses when they reach a commercially attractive stage. The Board now feels that with the continuing progress being made towards profitability, it is realistic to seek private sector funds over the next two years for BL's mainstream businesses. The Board sees these developments as the first step towards an eventual return of BL to private ownership.

Private sector funds, coupled with the continuing progress of the businesses, would, the Board believes, enable it to bring forward the time when the Company can sustain itself without Government funding. The 1983 Corporate Plan will be submitted on this basis. The Board envisages that the final £150m of Government funding required in the 1982 Plan will be significantly reduced, thus bringing this funding to an end earlier than expected in previous Corporate Plans.

30.7.82

ANNEX C

679.1

In the case of the Austin Rover Group Plan, the Government's approval has been given on the understanding that Ray Horrocks has in mind a wide-ranging review of the Austin Rover business next year some months earlier than would otherwise be necessary for the 1984 Plan, and that this review will involve close examination of the options for this business which the BL Board have identified in the Foreword to the 1983 Plan.

In the case of the Leyland Group Plan, the Government's approval has been given on the basis that BL have in mind that the progress of Leyland Trucks in 1983 will continue to be measured against certain "benchmarks", and that progress against these benchmarks will continue to be monitored by my Department as part of the monthly monitoring arrangements for BL as a whole.

In the case of Austin Rover, of course, the Corporate Plan's proposals for privatisation are inevitably somewhat limited. No doubt the complete privatisation of Austin Rover will take longer than the other parts of the business, but it is important that we turn our attention now to a strategy for privatisation including first the reduction and then the ending of Government support via the Varley/Marshall assurances on borrowing. I would hope that Ray Horrocks' review could incorporate consideration of these points. In particular, it would be useful if BL could study possible alternatives to the Government assurances, including possible changes which might over time reduce the Government's exposure under these assurances even before privatisation. A progressive collaboration with Honda would appear to us to be the most likely way of ending Austin Rover's dependence on the Government, and I should be grateful if everything possible could be done to enhance the prospects of this.

I have noted the BL Board's preference for privatising the Land Rover and Leyland Groups together by 1985. While not prejudging the issue in any way, but given the uncertainty of the prospects for the Leyland Group, I should be grateful if the Board would not proceed now with any measure which would make privatisation of Land Rover on its own in 1984 or 1985 more difficult to achieve. In addition, I should be grateful if you and your staff could continue to keep my Department closely informed about progress towards implementation of the privatisation strategy for BL's various businesses.

Ind Pol,
Pt 7
BL,

1 JAN 1985

PERSONAL AND CONFIDENTIAL

JF2062

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

03 November 1982

Sir Michael Edwardes
Director
BL Ltd
35 Portman Square
LONDON
W1

Dear Michael,

Following our discussion about your book last week, I promised to write to you setting out my views.

As I said to you when we met, the question of publication of this book is clearly for you, and for you alone. But I have to say that publication of a book of this kind does give me some general cause for concern. Hitherto, communications between Governments of whatever complexion and publicly owned enterprises have been on the basis of mutal confidentiality. In particular, both sides have usually tried to conduct relations in an open fashion, and without any eye to possible subsequent publication. Publication of your book might well make relations between Governments and such public enterprises (and not least BL itself) more difficult in the future.

May I suggest that you might care to look at the Chapter again with this general point in mind? For instance, I feel sure that neither Geoffrey Howe nor Keith Joseph would have expected to see your meeting with them (at page 28 of the draft) recounted in such detail. You might also like to be aware - even if you were not told at the time - that meetings with Conservative backbench Committees are <u>always</u> regarded as confidential and it can arouse resentment if what is said there in private later appears in public. Leaks are frequent of course, but overt accounts are pretty rare. When Lord Halsbury published a speech he had made to the two backbench Finance Committees on decimalisation of the currency, he was given a public rebuke by Iain Macleod! I attach the relevant extract from Hansard. [Hansard, Vol 743, 22 March 1967, foot of Col 1757/top of Col 1758.]

You may consider it wise to clear your lines with the Member who chaired the Backbench Committee which you addressed.

We also discussed a few of the specific points in the chapter which I felt were not entirely fair to my perception at least of ... events, and I attach a short note outlining these.

Yours ever
Patrick

Encl

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ANNEXE

CONFIDENTIAL

NOTE OF POINTS REQUIRING AMENDMENT OR DELETION

There are four points on pages 41/42 of the chapter entitled "The Iron Lady" which seem to me to be unfair. Each is alleged to be an example of my "intervention" in BL's commercial affairs. They are as follows:-

(a) Tactical handling of the November 1981 Pay Dispute

In fact, the intervention was never in the tactics but in the entirely strategic issue of whether to close the company down; my interest was in being given sufficient time in the midst of the tactics to take stock of what by any standards would have been a cataclysmic decision for the Government. You in fact commented favourably on my "hands-off" approach as shown, for instance,in the short Debate initiated by the Opposition on 29 October 1981.

(b) Negotiations with British Steel Corporation

This arose from the inescapable dilemma posed by two conflicting Government policies each relating to a publicly owned industry; we had no choice but to get involved one way or the other, and if we had avoided your disapproval we should thereby have incurred Ian MacGregor's. It is a good instance of why I am against nationalisation!

(c) BL's Membership of the SMMT

Again, this was not intervention in a commercial matter; the SMMT is in effect the Government's agent in applying a protective quota against Japanese cars, established initially for BL's own benefit. BL's attempt to withdraw from the SMMT was arguably more an intervention by BL in the Government's business than an intervention by the Government in BL's. Moreover, I think it highly undesirable that BL's consideration of withdrawal should receive publicity until the final issue is resolved one way or the other.

(d) The Tax Avoidance Issue

This issue was in no sense a straightforward one of the intervening in a legitimate commercial decision. By any standards, BL was sailing close to the wind in a matter which not only directly affected its main shareholder's financial interest, but also had a bearing on the decision about the amount of public funds the Government were willing to put into the company in the first place. I note that Austin Bide has just written to me saying that he quite understands the reasons which I advanced in support of my views on BL's tax transactions, and assuring me that the company has no plan to engage in any similar transactions and would certainly not do so without my Department's prior consent.

This is a very awkward argument for the Treasury, and with typical Treasury skill, because I admire that Department very much indeed, instead of arguing it, it has adopted it. Much the same now appears in all the letters which Ministers of the Treasury have been sending to Members of Parliament.

I find this in a letter from the Chancellor of the Exchequer to my right hon. Friend the Member for Altrincham and Sale (Mr. Barber):

"In Australia it was found that where staff were trained to help customers with their problems there was little or no difficulty; where they were not there was friction".

Here comes the jump in logic:

"Thus it is not the system in itself which makes for a smooth transition".

The answer is—[HON. MEMBERS: "Go on."] It seems that hon. Members would like the next piece read:

"I have every confidence"—

That must be a different letter. I also have the letter which the Financial Secretary wrote to my hon. Friend the Member for the City of Chester (Mr. Temple). [*Interruption.*] The letters say the same thing; they are identical.

The real answer, once more, is the simple answer. Australia got it right not just because its preparations were good but because it picked the right system. This is the answer to the success of the system in Australia and South Africa; and I do not doubt that the same will apply to New Zealand.

I have recently returned from Australia. I spent a good deal of time speaking to people—from bankers to taxi drivers—about decimalisation of the currency. It has gone marvellously well. I remember an article in one of the Sydney newspapers which said that when one saw a story about L.s.d. it referred to the drug and not to currency. This was only a very short time after the introduction of the decimal system.

We have a variant of the new argument about associability which the Government are doing their best to play down. A pamphlet which has been distributed by Lord Halsbury contains, as it puts it, the substance of the talks which he gave to Parliamentary Committees of the two principal political parties. I do not wish to raise the temperature, and therefore I avoid comment on that. Our meetings are supposed to be secret. I thought that this one was. As far as I know, no authority was given by the Opposition for this.

I do not wish to comment on that. But I do wish to comment on the new argument which emerges triumphantly at the end of this short pamphlet. Under the heading "Evidence from India", it states:

"This is of critical importance. It is persistently disregarded because it is ten years old and has lots its news value."

It goes on to explain how India decimalised in 1957 from an incredibly complicated system to its present system, and it says that "the transition went quite smoothly". I have no doubt that it did, partly because in 1957 the vast majority of small transactions would be in kind and not currency, but also because the rupee value of 1s. 6d. is one of the accepted groups and was decimalised into 100 Naya Paise, which is in an exact and pure two-decimal system. This is the reason for the success of the Indian system, and it is odd for Lord Halsbury to say that it is persistently disregarded because one of the bodies which persistently disregarded the advice was the Halsbury Committee itself which had this evidence presented to it, and it appears neither in the majority Report nor in the minority Report. It is slightly absurd that we should be asked urgently to consider it at this stage.

I come to the point about whether associability matters. I have tried to show that the Chancellor of the Exchequer has been driven into arguing that it is unimportant, but I do not think that many people share this view. Every report from every country—and I have studied as many of them as I can—gives the palm to the 10s.-cent. In its simplest form, the argument is that under the 10s.-cent system 13s. is 1·3, which is uncluttered and obvious, whereas under the £-cent system 13s. is 65 new pennies or 650 mils. But I do not think that the evidence shows that the gap will close, although unquestionably it will narrow. The Chancellor of the Exchequer dismissed this matter much too casually.

The comment in paragraph 218 of the majority Report on the report by Dr. Sheila Jones was this:

"Dr. Jones's results . . . suggest that the 10s.-cent system would be easier from the

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JU221
Secretary of State for Industry

MO

23 November 1982

Prime Minister (2)

MCS 23/11

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael,

Thank you for your letter of 15 November about Sir Michael Edwardes' forthcoming book.

2 In the light of the Prime Minister's comment, my Secretary of State discussed this book with Sir Michael Edwardes last week, and has subsequently written to him setting out his views. I attach a copy of that letter for your information.

3 I am sending copies of this letter to John Kerr (Treasury) and to Imogen Wilde (Department of Education & Science). I should be grateful if they would neither photocopy nor circulate this letter and its attachments.

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

CONFIDENTIAL

IND POL

10 DOWNING STREET

From the Private Secretary

15 November, 1982.

Dear Jonathan,

Thank you for your letter of 11 November with which you enclosed a copy of a chapter of Sir Michael Edwardes' forthcoming book.

The Prime Minister has commented as follows:-

> "I doubt if it is worth having a meeting - clearly anything said at any time anywhere is a candidate for the front pages of the newspapers. You can't trust a person like that with anything."

I would be grateful if you would neither photo-copy nor circulate this letter.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

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DEPARTMENT OF INDUSTRY
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JU138
Secretary of State for Industry

I doubt it is worth having a meeting - clearly anything said at any time anywhere is a candidate for future use. He realises you cannot win. A person like that will say anything.

11 November 1982

(1)

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

I doubt if there is any point in a meeting. X seems correct. There seems little mileage in Y. Agree? MCS 12/11

Dear Michael,

As you know, my Secretary of State mentioned to the Prime Minister earlier this week that Sir Michael Edwardes intends to publish a book about his time at BL, and that Sir Michael had sent him a copy of the chapter referring to his dealings with the present Government. I enclose a copy of that chapter which the Prime Minister may care to look at. (INSIDE LEAF OF FILE.)

2 Mr Jenkin's current thinking is that he might see Sir Michael Edwardes in order to make the following two main points:

X i there is no question of the Government trying to intervene to prevent publication of Sir Michael's book. That has to be for Sir Michael, and Sir Michael alone. (Mr Jenkin suspects that Sir Michael would use any more overt pressure not to publish as a "Ministers tried to gag me!" ploy.)

Y ii Nonetheless, he would go on to say, publication of a book of this kind does give the Government some general cause for concern which Sir Michael might like to take into account in reaching his decision. Hitherto, communications between governments of whatever complexion and nationalised industries or publicly owned companies have been on a basis of mutual confidentiality. In particular, both sides have usually tried to conduct relations in an open and frank fashion, and without any eye to possible subsequent publication of correspondence etc. Publication of a book of the kind Sir Michael has in mind would certainly tend to make relations between governments and public bodies (and not least BL itself) more difficult in the future.

In addition, Mr Jenkin is of a mind to take up with Sir Michael a few more detailed points in the chapter where Sir Michael gives an unduly one-sided view (e.g the references to the Government's intervention in BL's dispute with the SMMT, and the allegations about the Government's intervention in BL's practices in the field of taxation.)

3 The Secretary of State wonders whether the Prime Minister might like to chair a short meeting of those who have been most intimately involved in the present Government's dealings with BL before he sees Sir Michael Edwardes? If so, those attending might include Sir Keith Joseph, Mr Tebbit, Sir Robert Armstrong, Sir Peter Carey and Bernard Ingham, as well as the Prime Minister and himself. I should be grateful if you would take the Prime Minister's mind on this suggestion.

4 I am not at present sending copies of this outside this Department, though Sir Keith Joseph has seen a copy of the chapter from Sir Michael's book.

Yours ever,

Caroline Varley

for J P SPENCER
Private Secretary

bJ
Note changes & for DoI
U.

The first time I encountered Mrs Thatcher in full flight was at a luncheon to brief the Opposition in early January, 1979. She and the Chancellor, together with Keith Joseph and Jim Prior, lunched with the seven man BL Board at the Stafford Hotel - coincidentally, in a private room which was to be the venue for one or two hair-raising meetings with Terry Duffy (and other Union leaders) in 1980 and 1981.

In my innocence I thought that we would need to entice Mrs Thatcher to enter into a robust debate about the future of BL, so I placed her not on my right, but immediately opposite me - a technique that often gets a debate going. I need hardly have bothered. She had scarcely taken her seat before she fired the first salvo, "Well Michael Edwardes, and why should we pour further funds into British Leyland?" She glared stonily around the table at each of us in turn. My Board colleagues - not normally lost for words - were halted in their tracks for a good ten seconds..... as we adjusted to the direct style of a very formidable lady. Thereafter it was difficult for anyone to get a word in, as the debate raged on! I cannot say that I felt she left the luncheon meeting any more convinced about our case than when she walked into the room. If she was, she hid it well. But I was wrong.

For two days later, came a letter to thank me for the lunch, "I wish you well in the future in your very considerable efforts to restore BL to prosperity. If I may say so you have a thoroughly realistic approach." She added in ink, "I really enjoyed it, found it most valuable, and was most impressed by your open realistic approach." Certainly, the letter softened our assessment of how the lunch debate had gone done with the (then) Shadow Cabinet - and perhaps in retrospect that lunch helped to give us at least a breathing space after the Conservatives regained power a few months later.

This was the start of a relationship which tended to be conducted at a distance - she and I rarely met except at formal dinners - but did not lack in intensity at times. I was told by those who knew her better that she admired what she perceived as my persistence and courage in tackling BL's problems but was not at all pleased when these qualities were applied to the task of extracting money from the Government! Equally, I had the greatest respect for her courage, determination and hard work, even though I felt she sometimes discharged responsibilities which she could easily have delegated to her senior Ministers - or indeed to the Chairman and Boards of major public companies who were actually appointed to exercise them!

Soon after the Convervative victory in the May 1979 election, I found myself to all intents and purposes dealing with the new Secretary of State for Industry direct - for as I have explained the NEB's authority was quickly eroded when its future became uncertain.

Many people have an impression of Keith Joseph that is way off the mark. There is, of course, Sir Keith, the politician, and there is Keith Joseph, the man, but both personalities have one thing in common: great integrity. He may change his mind (and I can bear witness to the fact that he can and that this can be very disconcerting!) but I'm prepared to argue that he will only do so if he is persuaded that that intellectual case requires it.

- as I shall explain -

He changed his mind about BL affairs - ~~and~~ it was a mammoth reversal ~~, as I shall explain,~~ and yet I have to say that he was easy to work with when he was at the Department of Industry; he is one of those people who is always "a pleasure to do business with." In a nutshell, I trust him.

I enjoyed our frequent debates, and despite his philosophical objection to public sector industry - which in many ways I share - I found him to be encouraging and supportive in our day to day working relationship. Contrary to his public image, he has a sense of humour. During one of his rare visits to BL plants, he asked a group of senior managers what they were doing to win the hearts and minds of the workforce. After our efforts to communicate directly with employees had been explained, one of the managers irreverently suggested - "If we grab them firmly by the b...s, their hearts and minds will follow." Quick as a flash, the Secretary of State responded - "That is very interesting, but I can hardly put it that way to the Prime Minister." (Nor would I have been very pleased to hear the comment, for we were trying to steer a course that was firm but not autocratic!)

Keith's intellectual integrity was helpful to BL because it made him a non-interventionist on commercial issues. He has no real interest in motor cars and did not see why he should struggle to understand them. He paid BL the courtesy of a few visits, but I well remember that when he visited our testing ground at Gaydon in July 1979, to see our new models, we had a real struggle to engage his interest in anything that was not fundamentally important. This did not worry us, because it encouraged him to stick to the strategic issues which the Government needed to tackle as owner of the business. He knew the BL Board was in a much better position than his Department to exercise commercial judgment, and until his departure to the Department of Education in September 1981, we enjoyed a period of minimal intervention by the Government on other than the broadest issues. We were therefore able to make great progress, by concentration on our proper business.

Our first task with the new Conservative Government was to convince Ministers that they had no alternative but to honour the Labour Government's pledge to give BL the funds to see it through 1979. Any public hint of doubt about the availbility of funds in the short term would have caused a catastrophic crisis of confidence in BL at that stage. Even if the Government wanted closure, it would have had no control over the speed and cost of it, if a crisis were allowed to develop. With the help of the NEB, we succeeded in convincing Ministers that there were no quick and easy was out.

The second phase in our dealings with Thatcher Government came in the Autumn of 1979, when we put forward our 1980 Corporate Plan together with a request for the Government funding we needed for 1980. We knew that the odds were against our getting the funds. As the pound grew stronger and the two day a week engineering strike bit into our production, BL's losses were mounting. We were still a year away from our first major new model, the Metro. Although £225 million of the Ryder £1,000 million remained to be spent, we could foresee an early need for an extra £205 million on top of this, to finance our major programme of redundancies and closures. Moreover, if the economic outlook for manufacturing industry continued to deteriorate, we could not be optimistic about becoming free of Government funds thereafter. The Iron Lady's axe was poised, perhaps rightly so.

Nevertheless, the Board felt that we were making progress in tackling our internal problems and that a real prospect of recovery remained. Knowing that this alone would not be enough to convince a very sceptical group of Ministers, I reflected on the cards we had left in our hand.

First, the depth of BL's plight was in one sense a point against closure, since there was no prospect of a buyer who would come along and take it off the Government's hands, or pick up the pieces. If buyers could be found for individual parts of the company (and there were few easily separable operations within BL in 1979), the overwhelming proportion of the company would still have to be closed. This would cost the Government far more in the short term than keeping BL going. Under the public Government assurance, first given by Eric Varley in 1977, it would have had to meet all BL's obligations, and in addition the cost to the Exchequer of the huge redundancies would run to over £4,000 per man in the first year. We then employed 160,000 in all. Taking account of the likely impact on the component industry and on the regional infrastructure in such areas as the West Midlands, the Government would have had to find £1,000 million within a year in order to pay for the closure. Enough to disrupt its plans for cutting public expenditure.

Secondly, there were some positive points which had special appeal for a Conservative Government. We were making great strides in employee relations during the last quarter of 1979. We had won a 7:1 majority in a secret ballot of the workforce on our restructuring programme - thus nudging the country towards the 'realism' which Ministers were preaching so fervently. We had sacked Mr Robinson and were awaiting the report of the AUEW's inquiry into the episode. We had put forward a tough 5% pay deal for BL Cars with a 67-page list of proposed reforms in working practices; both were still under negotiation with the trade unions. At that time the improvement in productivity and employee relations ranked number one in the Government's industrial objectives, later to be displaced by privatisation. Were they going to throw away this opportunity of a productivity and attitude breakthrough, and kick a realistic workforce in the teeth by going ahead with closure? A similar argument applied to the collaborative deal which we now had ready for signature with Honda. Would the Government be prepared to throw away this pioneering agreement between a British and a Japanese motor company, which might encourage wider moves to transplant the benefits of Japanese technology and efficiency in Britain?

Finally, we made the tactical decision that we should ask for only one year's funding - amounting to £300 million for 1980. This went against all our wishes for a longer period of stability. But it made the decision to support BL more palatable for a Conservative Government. Could they refuse BL "a last chance?" Yet I knew that in a year's time we would have launched the Metro and it would then be even more difficult to close the company. The Prime Minister must have known that if she were to grasp the nettle of closing BL in cold blood (rather than as a result of a strike), she had to do it in her first few months in office. This could mean rejecting our 1980 Corporate Plan.

But we got our £300 million - in the event the tactical points in BL's favour proved more weighty than the Government's free market philosophy. There was of course much agonising inside the Cabinet. As the Economist put it (after the Government's announcement, just as Parliament broke for the Christmas recess):

> "On Thursday BL got early delivery of the most begrudged Christmas present ever shoved into a laddered stocking."

There was the usual detailed examination of the Plan at the official level, and the Board invited Keith Joseph to dinner in November to explain its thinking.

Later, John Nott, as Secretary of State for Trade, was asked to cast his ~~qualified~~ accountant's eye over our figuring, and this led to a tense meeting with a group of Ministers at

he is a barrister, not an accountant. Suggest "banker's" ?

the House of Commons, where it was clear that Ministers did not give us as much as an even chance of succeeding with our recovery programme.

Therefore we could do no more than wait, until I was called off the squash court at the Lansdowne Club one morning to sign a letter which Keith Joseph want to lay before Parliament that afternoon, reflecting what I had already told him on behalf of the Board - that we would have no hesitation in abandoning the Corporate Plan (thus triggering total closure) if we were thrown off course by a strike, or indeed by any other factors. Subject tc that, the Secretary of State would announce the funding decision at the same time. Richard Bullock, draft in one hand, pen in the other; me, squash racquet in one hand, towel in the other. Richard, now retired from the Civil Service, has a dry sense of humour. He met me with outstretched hand: "Sir Francis I presume?". I signed, glad that this particular battle was over. Keith delivered his side of the bargain later in the day.

The Government were able to describe this decision publicly as a "last change lifeline" (as the Daily Express put it) rather than as a fundamental U-turn. This was hardly an expression of confidence in BL's future, but at least we had our funds, and the decision had come relatively quickly thanks to the pressure of our Honda negotiations - for as I said earlier, Honda might well have pulled out if we had not been in a position to sign the agreement with them by the year end.

Ministers, and not least the Prime Minister, may have regretted this decision in retrospect on many occasions over the next couple of years, as BL came forward with further large financial requirements; by then the combination of tangible progress towards the company's recovery and rising unemployment across the country made BL difficult to close. Perhaps only now, with even longer hindsight, are some Ministers accepting that they may well have taken the right decision after all, for BL shows signs of being capable of returning to the private sector (in due course) on a viable basis. But the growing Ministerial mood of regret and frustration, and perhaps at times resentment, was to cause problems in our relationship with Government for some time.

This was the political background to our dinner with the Prime Minister at No. 10 Downing Street on 22 May 1980, - almost the exact mid-point of my 5 years at BL, and also perhaps the low point. It was ironic that, having successfully overcome the employee relations upheavals in the preceding months, the business was facing its most serious crisis yet - largely for reasons outside our control. With the recession biting into both the car and truck markets, and the devastating combination of high inflation and a strengthening pound destroying the competitive position of British manufacturing industry, BL's losses were projected to mount to record levels. What is more, we had not yet worked out a plan to deal with the situation, for it was literally building up overnight as the pound took off. We had progressed no further than the painful realisation that the drastic restructuring programme, which our workforce had so overwhelmingly supported 7 months earlier, was now no longer adequate. Hundreds of millions of pounds of cash shortfall stared us in the face.

Against this background, we faced the unenviable prospect of going to a working dinner with a Conservative Prime Minister to tell her the unpleasant news that she and her colleagues would be forced to choose between pumping vast sums into BL to keep us going - or an even greater sum if they preferred to let BL go to the wall. Such a prospect would have caused difficulties with any Government - but with a fiercely determined PM committed to reducing public-ownership of industry, this looked like a suicide mission!

A few months earlier, the pound had strengthened, and we did a major review to see whether we could survive 1980 without further funds. We were able to confirm to the Secretary of State that we could just about see our way through to the 1981 Plan - provided the employee relations scene calmed down in the wake of the dismissal of the Longbridge convenor, and the implementation of the wage deal. Throughout 1980 the pound continued its sharp climb upwards and peaked at the horrific level of 105 trade weighted average in January 1981 - eroding in currency terms much of the increased competitiveness we were achieving through cutting our costs and increasing productivity.

As we drove down the Haymarket, around Nelson's Column in Trafalgar Square, and into Downing Street (I was accompanied by Austin Bide and David Andrews) we reflected that it would be difficult to put across the truth, which was that our latest predicament was largely due to her own high standing and its impact on our currency! But put across the truth, we must. . . .

With this weighing heavily on ~~my~~ our minds we stepped into the lion's den. It didn't take her long to get down to brass tacks - one quality I understand, for I also have an inability to make small talk for more than a few seconds! A quick drink, and we were immediately ushered into a working environment, along with the soup.

The Prime Minister was very much in the chair. Her team included the Chancellor, Sir Geoffrey Howe and Sir Keith Joseph. The Prime Minister was in an enquiring mood, somewhat reminiscent of the Spanish Inquisition. "Now what's this all about? You're not going to ask us for more money?", was her opening salvo. When I replied that we would certainly need some hundreds of millions of additional funds, this immediately ~~set~~ established a frosty atmosphere for the early part of the evening.

We explained that great progress was being made, but that BL was large and its problems were complex; the critical area was still product - great progress having been made in other areas - and we would not have a fully competitive range of cars and trucks much before 1983. In fact, as each acceptable new product was introduced, it was burdened with economic factors that were rapidly moving against us. Although we expected productivity to improve dramatically in 1981 and 1982, and we would not concede extravagant wage claims, the new and unexpected rate of appreciation of sterling would severely erode our progress. It could be quantified, and it would be quantified, but as it was months before we were due to submit the 1981 Plan, we merely wanted her to be aware of the general problem.

We said that it was not our place to make a political judgment about the impact of a possible closure of BL but what was certain was that if the Government's economic policy was not successful, then BL could not hope to recover. In other words high inflation and a high pound (whether due to North Sea Oil or any other distortion) was a combination we couldn't overcome unaided, especially if it was set against the background of a recession.

Just in case there were any misapprehensions in the minds of Ministers, we explained that BL's problems at that time would not be restricted to Austin Morris - the popular misconception was that Jaguar, Rover, Triumph and the Leyland truck business were all profitable, and this was far from the truth. Only Land Rover and Unipart made respectable profits. Product actions and modernisation were urgently needed in all parts of BL, and this meant continued heavy funding by Government, particularly in ~~current~~ the prevailing economic circustances; it also required collaborative ventures to speed up the actions.

We emphasised that apart from one or two parts of the company - perhaps 20% ~~of it~~ in sales turnover - the business was not saleable. Privatisation of sections of it might seem tempting, ~~as an notion,~~ but it wasn't a practical option. On the other hand, as the recovery programme progressed, and as collaborative deals were consummated, we would hope eventually to bring in equity partners, which would strengthen BL and serve the Government's purpose of introducing private sector cash.

Nevertheless, we had to be open with Ministers - on present economic assumptions there was a real case for closure. This was a political rather than a commercial issues. The Prime Minister asked what could be done about it, and I replied that Government could fund the company over and above the present Plan, & when the 1981 Plan was quantified, ~~it~~ Government could accept the need for finding hundreds of millions in extra funds . . . or Government could close the business now, at a cost of arguably £1,200 million. Neither route would be palatable.

We were well past the fish course at this stage, and the Prime Minister was not enjoying the discussion one little bit. It didn't help when an aide popped his head in to give the end of the days currency figures - the pound was still moving inexorably upwards. She had my full sympathy at this point; with public expenditure cuts proving difficult to push through, and the recession and the strong pound starting to accelerate the growth in unemployment, her sense of frustration with BL, as a microcosm of her wider problems, was understandable.

I pause here to reflect on whether we were right to have initiated ~~indicated~~ this type of debate. In mid-year, between Plans, one can only talk in very broad terms. We were postulating concepts; foreshadowing problems for 1981 which would only become crystallized when we submitted the 1981 Plan towards the end of 1980. Concepts which could not be ~~precisely~~ quantified in any precise way for some months. Now we had reason to believe from subsequent feedback that she found this unsatisfactory. Our lack of precision, our lack of quantification of likely sums involved, was seen by the Prime Minister as a weakness - whereas we saw the working dinner as an opportunity of flagging up problems on the horizon. As a Board we were used to dealing with concepts at the profile stage, and specifics at the plan or budget stage. We thought we were being helpful in doing this, but she expected a debate of the latter type, and our "broad" approach was read as a lack of professionalism. To this extent we did not do justice to our cause. On the other hand the message we were conveying was relevant not only to BL, but to hundreds of industries

then being severely damaged by the over-valued pound. ~~and~~ To be able to offer the Prime Minister and her Ministers a meaningful example of the impact of her currency policy, seemed to us to be a very necessary exercise - perhaps even our duty. (Subsequent events, in 1981 and 1982, showed that our concern was not without cause).

Meanwhile, we had moved into the drawing room to continue the cross-examination! What could BL do about it - that was more to the point, she said. Well, we were drastically cutting costs and would have to re-do our model programme; be much less ambitious. But even then the need for funds would far exceed that envisaged when the 1980 Plan was submitted in November 1979, only six months earlier. This was a political issue - yes, she agreed it was.

The biggest surprise of the evening was her next contribution to the debate: "How much do we have in the contingency reserve, Geoffrey?"

My immediate reaction was: we are in with a chance. My colleagues later concurred with this view. The Chancellor looked distinctly uneasy, and understandably was not too explicit in his reply!

The Ministers looked tired - it was after 10.30pm and we had been at it since 7.30pm - "is that about it?", Keith Joseph asked The Prime Minister said no - there were other aspects to explore. We ended by discussing the large wage settlements in the public sector; she doubted that interest levels would drop, or that the pound would ease in value. in the short term.

At the end of the evening we all agreed that no proposals were laid on the table, because the BL Board were not yet ready to put forward positive recommendations - therefore no decisions were sought. We had had a useful exchange of views. And the climate which at the beginning of the evening had been frosty to cool, warmed up just a wee bit, as we trooped out into Downing Street at ten past eleven.

Austin and David and I chatted about the dinner; ~~and agreed that~~ the only thing that was certain was that to continue with the Recovery Plan would cost a great deal more money, and we calculated that a large cheque - perhaps a billion pounds - would be needed to fund the ~~1981~~ Plan for 1981 onwards, when it was presented to Keith Joseph in the Autumn of 1980. ~~In this we were right~~ We turned out to be right.

Would they wear it? We simply didn't know - and we were wise to take nothing for granted, for the further funding requirement ~~turned out to be~~ at £1,140 million was just about the estimated cost of closing the business. Too close for comfort.

It seemed ~~I am told~~ that the "BL dinner" became deeply engraved in the Prime Minister's memory; that it acted as the focus of her resentment about the 'BL problem', and she had no desire to repeat the exercise. It was the first and last working dinner!

This did not mean that she delegated the problem to her Secretary of State for Industry. She was the exact opposite of Jim Callagham in ~~the~~ this respect. Everything of any conceivable political consequence ~~had to be~~ was referred to No. 10 - not only the stategic decisions on funding, but even matters such as the ~~appointment of a non-executive director to the BL Board or~~ the Chairman's remuneration. Moreover, this was no rubber-stamping process. Recommendations on other matters were frequently overturned. Quite apart from the Prime Minister's direct role in this, her general attitude to the sponsoring and spending Departments encouraged the central

AJ Fit this in earlier too.

parts of the Whitehall machine - such as the Treasury and the Central Policy Review Staff (the Think Tank) - to indulge their penchant for second guessing the judgments of other Departments.

I cannot judge whether she was right to extend such little trust to her Ministers - but ~~this~~ it certainly tended to undermine their credibility, and turn the already complex process of securing the right decisions from Government into a fine art. Particularly in 1980 and 1981, under Robin Ibbis, the Think Tank came up with some extraordinary ideas and seemed to have an influence out of all proportion to its expertise. There are of course occasions when the Staff experts are right, and can show that their point of view would have secured a better result. This is ~~however a bad~~ not always a good leadership approach, for if you second guess those responsible, you de-motivate and sharply ~~make an~~ reduce effort and commitment. It does'nt pay to second guess 100% in order to lift correct decisions from 99 to 100, for the Subsequent effort put into the 99 ~~is~~ can be ~~then~~ heavily diluted!

Whenever we met socially, the PM was extremely friendly. Just as I admired her ability and determination in pursuing policies with which I ~~do~~ did not always agree, she seemed to recognise and applaud the progress we were making at BL and in this she was generous, particularly as she ~~hated~~ disliked the whole concept of BL as a State-owned and cash-consuming operation. She went out of her way to be helpful in the launch of the Metro by driving in one to the Motor Show and driving another up and down Downing Street - thus demonstrating (in her own words) that a U-turn does more than bring you back to where you started!

She could also take conversational ripostes as well as administering them. As I was leaving a dinner at No. 10 in honour of President Mitterand of France, I was about to thank the Prime Minister for the pleasant, indeed intriguing evening when Lord Carrington, who was standing beside her, said something to the effect that BL was now going much better - "Keep up the good work Michael", he sai with his usual charm . . . .

~~W~~She immediately pounced on his words and said, "So he should, he's paid more than I am".

Now it so happened that we had had some actuarial assessments made of the cost of pensions for people in short-term posts, and although the present Prime Minister does not see the role as short term, the actuaries had understandably examined her job in this light.

What it amounted to was that the salary approved by Parliament - about £36,000 - provides the basis for the pension, whether or not the salary is fully drawn, and a full and ample pension is paid from the date of leaving office, even if that happens to be only days after the appointment.....this is of course very expensive to ~~find~~ fund. When I began to point this out, she countered:

I don't even take the approved £36,000 - I only draw £28,000 per annum."

"But Prime Minister, you are not including the cost to the State of funding you pension - if you add that back, your job is worth £28,000 plus £70,000 per annum, or approximately £100,000 in all."

I thought Peter Carrington would burst. My conversation with the Prime Minister was helpfully interrupted by other guests saying farewell, and I left speedily. She took it well, as one would expect....

People often forget the impact of pensions contributions - in fact MPs and even Ministers are very badly treated - their pensions are pro-rata to the length of time they are actually in their hazardous roles and the cost to the State is rather niggardly. But the Prime Minister draws a very reasonable pension (even if only in office for a day) and the additional cost of it is about double the face value of the salary. Any why not? The job is onerous, and the risks are enormous. Certainly this Prime Minister earns every penny . . . .

But this is a light aside describing the tail end of a very interesting experience - watching one of the greatest Conservatives entertaining a very Socialist French President. And, how well they got on together; quite unlike the chilly ~~[illegible]~~ atmosphere when I attended a dinner for President Giscard d'Estaing the year before. Of course, Mrs Thatcher and President Mitterand differed very greatly in political thinking - but they did agree to differ, which was a helpful start. An example of the statemanship of a lady so often wrongly portrayed by her critics as a narrow-minded dogmatist.

The May 1980 dinner had set the alarm bells ringing, signalling the need for hundreds of millions of pounds. At the end of that year the Plan went in, and frankly when one looked at the size of the figures, I was not sanguine about our chances of securing Government approval. The sum of

£990 million over two years (with a requirement of £150 million thereafter) looked horrific to me. Admittedly we had the highly successfully launch of Metro under our belts, and we had implemented all the physical actions laid down in our 1980 Plan, including the recovery programme announced in September 1979 - and the working practices reform package, which was already bringing about ~~some~~ very tangible improvements in productivity. We had also set in hand a reorganisation which would sub-divide BL into four distinct operating groups - Cars, Unipart, Leyland and Land Rover. This was the logical next step in our plans for decentralisation, but it was also attractive to Government in facilitating later privatisation and insulating the effects of a major strike in the volume cars business, from other parts of BL. We also set up Jaguar as a separate entity within the Car business - alongside what was to become Austin Rover.

My reason for being pessimistic about the funds was that the right-wing opponents of BL seemed to hold a formidable hand. First, the need for as much as £990 million sprang from a massive deterioration in BL's trading position (arguably attributable mainly to the Government's economic policies) which was likely to lead to total losses (after tax and extraordinary items) of over £500 million in 1980. The Board had therefore been unable to make a positive recommendation for the funds - it had simply said that a real prospect of recovery remained if the funds were provided, but that it could not oppose a Government decision to close the business. This was the only honest course open to us. Secondly, we had 'gone for broke' by insisting on a two year period of committed funding to give us stability to plan ahead and encourage our hard-pressed dealer network - this was vital commercially, but the combined funding request added to the risk of the political decision going against us. Thirdly, the public expenditure constraints on the

Government were still severe, given their overall economic policy. Fourthly, there was some distrust of the Board on the part of some Ministers. They felt, under the terms of the published letter I wrote to Keith Joseph at the time of the funding decision a year previously, that we should have pulled the rug when BL's financial performance deteriorated during 1980 - even though we had stayed within our Government funding limit for the year, and were achieving many of our physical targets. Finally, there was the thorny subject of privatisation, which by now had replaced employee relations as the Government's No. 1 concern, in the arena of public sector industry.

It was in some respects surprising that privatisation should have become an issue between the BL Board and a Conservative Government. Shortly after my appointment to BL, I found myself saying to Jim Callaghan, in the Cabinet room at No. 10, "I must be frank, I don't believe in State ownership of industry, but I will do my very best to bring about BL's recovery, regardless of who owns it for the time being . ." or words to that effect. The rest of the Board have always favoured free enterprise, and our ultimate aim has always been to return BL to the private sector.

Unfortunately, the political and the commercial time-frames for achieving this did not match. The Conservative Government's time-frame was set by the 4-5 year duration of a Parliament; in addition, they looked to disposals as short term means of alleviating the burden of funding BL. The commercial reality, however, was that BL as a whole could not recover in time to attract significant private capital before the General Election in 1982/4. In these circumstances, the Board was still willing to ~~make progress~~ take action in the shorter term where this was feasible - for example, through the disposal of non-mainstream businesses such as Alvis, Coventry Climax and Prestcold, which raised no less than £53 million in 1981 alone. But ~~we were not~~ it was not sensible prepared to pursue privatisation in ways which put our recovery programme at risk - for example by selling a business which was not separable from the rest without serious damage, or by selling prematurely when the price would be so low as to reduce BL's cash flow or seriously weaken its balance sheet. We also had over ~~84,000~~ private shareholders to take into account.

The only justification for privatisation at the expense of recovery would have been if BL had no real chance of surviving and becoming profitable, and in the dark days of 1980, I'm sure there were several Ministers who took precisely this view. Even then, to break up BL and try to sell off the bits, offered no easy way out for the Government. It was inconceivable that a buyer would have come forward for the whole of BL - even if the Government had paid them a substantial dowry to take it (which some Ministers might well have been willing to do!) Nor could many of the individual bits have been sold, and certainly not at worthwhile prices - the uncompetitiveness of the UK economy combined with the worldwide recession in the motor industry saw to that.

Occasionally, prospective buyers would come forward for particular pieces of our business without having adequately informed themselves of the true state of size or value of those businesses.

The interest of Aston Martin Lagonda in MG, and of Mr David Brown in Leyland Vehicles, were two well-publicised examples. Even less substantial rumours of buyers for Land Rover and Jaguar arose from time to time in Whitehall or in the press. On each occasion, we faced a political flurry - but on closer inspection of the realities, the interest, or rumour of interest, invariably evaporated. The entrepreneurs had under-estimated the funds required.

So privatisation offered no real escape from the bulk of the cost of closing BL, if the Government had chosen not to support the Plan. But the Government's gradual realisation of this did not remove the difference of emphasis on our fundamental objectives - the Government's priorities ~~seemed~~ tended to be privatisation (with recovery ~~a long way behind~~ important but secondary) while the Board believed that further recovery had to be achieved <u>before</u> privatisation could become feasible.

The processing of a BL Corporate Plan through the Government machine starts with a detailed examination of the Plan by an inter-departmental committee of Civil Servants, who then make recommendations to the appropriate Ministerial Cabinet Committee. While this examination was still in progress on our 1981 Plan and £990 million funding request, I was surprised to be asked informally by Keith Joseph whether I would be prepared to stay on as Chairman beyond my original secondment, which was due to end on 31st March, 1981. (Th~~is~~e secondment had already been extended for a few months beyond the initial thre~~e~~e year period.)

The question surprised me because I had expected the Government to reach a view on our Plan before deciding whether I was the right person to carry it forward. But Keith seemed to feel that, if the Board attached importance to an assurance of funding over a two year period (to achieve stability) then I should be prepared to see this period through, until around the end of 1982. Fair enough..

I was also surprised for another reason. The question seemed to give us a bargaining counter - if I and the Board wanted to use it. The Board saw it that way, & so did I.

I pondered long and hard, for I had been determined not to be involved in the public sector for longer than three years. On the other hand, I felt that I owed it to my BL colleagues to stay on, for three specific reasons.

First, it was clear that our chances of securing the £990 million we then sought from Government, would be much greater if there was no early discontinuity at the top.

Second, although we had made progress, it was clear that what I had hoped to see done in three years, would in the event take all of five years.

Third, we were being pu under great pressure to dispose immediately of parts of our mainstream business - this I saw as a dangerous step from a timing point of view. Better to get the business back on its feet, than risk the disruption and loss of confidence were we to sell the jewels in the crown, prematurely. If I was really wanted - which surprised me i some ways - perhaps there was a trade-off? I would not hav raised the subject - it was distasteful to make myself the subject of a "horse-deal" - but given that I was being invited to stay on, it seemed reasonable to explain the circumstances in which I would do so. I put the matter to the BL Board, and they pressed me to accept the offer, and to make it conditional. In fact they too felt so strongly about the need to avoid hasty sell-offs that they asked to be associated with my letter, in which I said that I would consider staying on if we received an assurance of Government funding for a reasonable period ahead, and were not forced to commit ourselves to any premature outright sale of our mainstream businesses.

I sent my letter to the Secretary of State on 4th December. I don't think its message was very welcome in some quarters phrases like "a gun to the head" were quoted to me afterwards. This was never the intention. But it certainl stirred things up, and there were distinct signs of progres when I was invited to see a group of senior Ministers a few days before Christmas. This was in Keith Joseph's office, where the BL team (David Andrews, Frank Fitzpatrick and I) faced a barrage of questions from John Biffen, John Nott, Jim Prior and Keith himself. They were to report back later that day to the PM and the Chancellor, and I left the meeting believing they knew all they needed to know about the Plan (and the Board's thinking) in order to reach their decision.

However, to our surprise, no decision was forthcoming before Ministers departed for their Christmand and New Year break, although it emerged from leaks to the press that only John Nott had stood out against approval of our funds. There ~~were~~ was of course no enthusiasm for supporting BL, but the political and commercial realities were beginning to be recognised by his colleagues. Yet apparently the temptation to defer the decision had been too great. I was deeply disappointed that we could not now hope for a decision until after Parliament had returned in January - three months after we had submitted our Plan to the Government. I went to South Africa to spend Christmas at home - the holiday was not a relaxed one, with the Sword of Damocles poised above, and I was conscious of the damage being done in the market place - uncertainty kills businesses.

The lack of a decision was much publicised, and the undertainty was playing on the minds of our managers, workforce, dealers and indeed everyone whose support was needed to keep BL going. I was heartened by the news in early January that John Nott was being reshuffled from Trade to Defence. Perhaps we could now get on with running the business!

But I reckoned without the effects of a lengthy break. Ministerial doubts had been nurtured by further reflection, and Keith Joseph in particular had had a change of heart. Ministers met again under the PM's chairmanship. I know that Keith had advocated to colleagues that Government should support the BL Corporate Plan for 1982 onwards - indeed I was told later by a Cabinet Minister that a paper to this effect had been circulated to ~~his colleagues~~ Ministers before the meeting, and might well have actually been before each person around the Cabinet table. The paper said, "give them the money," and Keith - in what would otherwise have been a preamble to support the case - said, "don't"! By this time, after weeks of debate, including debate between groups of Cabinet members and the Board, most people around that table were supporters or had been converted. Some saw the funding as the lesser of two evils. But there was no heavyweight view opposing the funds - only, but unbelievably the Secretary of State for Industry ~~itself!~~ himself!

Now, why ever did he do it? He did it because at the end of the day he was too honest to do otherwise. Keith, the ~~main~~ man, does not believe in public support for loss-making industry, whatever its likelihood of ultimate recovery; he is not in favour of Government being involved in anything or any business that "need not" concern the State - in short, ~~helping~~ funding British Leyland was anathema to him, as indeed it was to some of his colleagues. The difference is that others were prepared to subordinate their fundamental philosophy to political reality, and Keith was not. Admittedly, he had been prepared to ~~to~~ follow the "political" route at first - but he had since persuaded himself that he was not being true to his ideals, his basic doctrine - and who would deny that? He repented, and he did what his conscience demanded.

And so we had yet another unique experience at BL; a Secretary of State (in the end) winning vast sums of money for the company's recovery plan, against his own wishes. Not that we had yet "won", as Keith's volte face ~~had turned~~ seemed to turn the Ministerial mood against us for the moment, ~~and~~ we were

and

that the decision, in principle, had gone our way

not at first told ~~about the decisions~~ the outcome of the Ministerial meeting was not revealed to me until some time later; instead we were greeted with a stony silence by the civil servants, and with a summons to meet the Chancellor of the Exchequer and the Secretary of State for Industry, at 7.30pm on 20th January. Although the Prime Ministers office had asked me to stand by to see her, she changed her mind and 'delegated' the task. ~~But, although~~ She had reserved all the final decision-making powers to herself, but she had at least 'delegated' to the right Minister, for Geoffrey Howe's commonsense proved to be a major factor in overcoming what had the makings of a crisis.

At that point all I knew was what the two Ministers told me at Number 11 Downing Street that evening.

Geoffrey and Keith told me that the scale of the funding requested by BL was "horrific", and they asked whether the Board would give a public commitment to seek to sell BL or merge with another manufacturer as soon as possible, in order to relieve the Government of this enormous burden. I explained once more that there was no easy way our for the Government, and that the Board could not hope to manage the business successfully while advertising it for sale at the same time. If the Government decided to close the business, then the Board would accept the right of our 99% shareholder to take such a decision, and would co-operate as required. (This has been the Board's position throughout - we would not have walked away from a firm decision to close the business in appropriate circumstances - we were prepared to see it through).

J. [illegible] is regarded is [illegible] [illegible]

On the other hand, if our employees, dealers, bankers and potential collaborative partners could be given confidence by a commitment to two years of funding, there were positive opportunities for further collaboration and for bringing in private sector equity capital as BL's recovery progressed. As the discussion wore on, I could feel the attitude of the two Ministers moderating, as the commercial realities began to come through once again. Having (intuitively) anticipated some of their concerns, I was able to give them two notes describing what we would be prepared to say publicly about collaboration and two year funding to ease their presentation problems. While it was all rather hypothetical, because they had to report back to their colleagues, the meeting ended with my being asked to provide a draft public statement, (to be endorsed ~~approved~~ by the BL Board) which would help the Government to handle the approval of the funds in the House of Commons, if that was to be the outcome.

~~the meeting proved~~

Although no decision was taken then, that meeting proved to be the turning point, in firming up the Cabinet's last-minute decision to back us; ~~and~~ Keith Joseph announced approval of the £990 million in the House of Commons six days later. That six day period was by no means plain sailing! ~~however.~~ Having agreed the principles with senior Ministers, I was amazed to hear by telephone on Friday evening, 23rd January, ~~from my assistant, Roger Holmes~~, that the Prime Minister had got her teeth into the various draft statements which were due to be issued publicly on 26th January. That she ~~and~~ had made extensive changes which once again raised major issues of principle. At that time I was at the Dowty Group prize-giving ceremony in Cheltenham (at the invitation of their Chairman and one of our Board members, Bob Hunt) and this occasion was disrupted by a number of ~~further~~ telephone calls for me, as we tried unsuccessfully to resolve the problem that evening ~~on the telephone~~; we finally arranged a negotiating session with Sir Peter Carey at my home for the next day, Saturday.

The situation would have been difficult for any constitutionalist to comprehend. It seemed that having decided in the appropriate Ministerial Committee to support our funding, the Prime Minister must have separately summonsed officials to No. 10, apparently without any collective Ministerial presence, to tell them of the significant ~~important~~ changes she wantedthem to negotiate with me - changes which in our view would have eroded the authority of the BL Board to carry through the recovery programme. At my Saturday afternoon meeting with Peter Carey, his great ingenuity at drafting (as well as hours of argument) had to be employed to meet the PM's wishes as far as ~~would could~~ possible without undermining the Board's authority. Then we had 24 hours of waiting while the outcome of our discussions was sent out to Chequers for approval.

Finally, the approval came. Keith Joseph did not enjoy the announcement he had to make to his own backbenchers on further funding for BL. His discomfiture showed, and I sympathised with him. But I too was about to face his backbenchers, for immediately after Keith Joseph's announcement I happened to have a long standing commitment to address the Conservative Industry Committee. In view of the sum involved - £990 million, actually approved, and a Corporate Plan which envisaged a further £150 million - the timing was opportune, for it seemed only right to give the backbench Committee ~~an~~ an early opportunity of questioning us on the company's plans and actions. It was not for us to justify the Government's decision to provide the funds, but we owed it to groups of

MPs - particularly hostile ones - to explain why we had sought these massive sums of money, and how we proposed to use them.

Accompanied by senior colleagues, I went to the meeting knowing that the far right wing were resentful about the Government's decision, and whole somewhat puzzled at Keith Joseph's apparent acquiescence in the process. In presenting the decision to the House of Commons, Keith had been absolutely loyal to the principle of collective Cabinet responsibility, for he gave no hint of his personal contribution to the debate; but the agony of the conflict with his own personal principles (combined with the extreme reluctance of the Government as a whole to provide financial and even moral support for the company) had come screaming through between the lines. There was a case for mollifying the backbenchers - cooling their tempers and winning them over. The fact that we did not attempt this, that we took an entirely different tack, was due to a number of incidents that had occurred in the recent past. For example, for all the pious exhortations that the public sector should behave commercially, seventy Conservative backbenchers had signed a motion <u>opposing</u> the closure of MG, despite the fact that it was losing money at the rate of £26 million per annum. Furthermore, while we were trying to build bridges with the unions, having had a fairly torrid time over a couple of years, right wing MPs would (unwittingly I like to think) make extremely provocative statements on a variety of subjects, which had the effect of worsening relationships between management and workforce. We felt that we had been forthright, and certainly not soft, in our dealings with shop stewards and others. This was our job - no-one elses! Gratuitous criticism of our employees by the right wing, or anyone else, was superfluous and downright unhelpful. Furthermore, much of the criticism was destructive and was hurting us in the market place - at home and abroad. This was the real problem and the one I planned to focus on that evening. At that time, January 1981, I found the extreme right wing just as unhelpful to our cause as the extreme left . . . . hence the calculated aggression which went into the Industry Committee speech. It was not well received and charges of arrogance were levied at me afterwards; there was in fact a rather uncomfortable hour of hostile dialogue, followingmy speech, and although I could well understand their reaction, I felt that what I had said needed saying.

opening

My spearing remarks reflected the frustration we felt at the time:-

"Our job at BL is to run a business. Running that business is an uphill slog at the best of times. When, however, we are beset by extremist influence, whether they are Derek Robinsons or extremists on either side of the political spectrum, it makes the task that lot harder.

"Divisiveness in Britain makes world headlines; above all we lack and need greater unity of purpose. I for one am sick and tired of destructive criticism that makes it easier for our world competitors to sell against us. Because we are not militants or politicians we turn the other cheek in public - and despite the damaging effect on our market share and public confidence - we get on with running the business."

"This evening, however, I thought it proper to comment on some of the ill-formed criticim that BL is subject to out there in the market place.

"The fact is BL is very seldom on strike now. Last year was the best industrial relations year ever (98.6% of all working hours free of dispute - a.76% improvement on 1979). The Trouble is we ~~pay~~ are [illegible] for the bad behaviour of a decade from 1968 to 1978, and when there is an isolated dispute - arising as often as not from firm management action to take us further along the recovery road - the floodgates open.

"The militants and the media we expect. It is surprising, however, to get uninformed, unconstructive criticism from people in this room, even when your own colleagues in Government decide to keep us going. The Government owns the business - we have the unenviable task of running it. If the roles were reversed I wonder what you would do differently to what we have done. I am sure that you like us, Mr Chairman, would have:

1. Slimmed or demanned by 52 00 jobs in three years

2. Kept wage rises to low single figures for three years (there's some way to go in the public sector yet to get down to BL's level).

3. Closed large sections - loss making sections - of the business

4. Taken on the militants and asked managers to put their own jobs on the line again and again.

Y (In BL managers are not up for election every five years - but three times a year. That's each time management doesn't cry wolf or bluff when militants take us to the brink.)

"The Board, management and employees, didn't decide to provide £990 million. We merely tabled a plan, as an alternative to the real option of closure. An intelligent group of Ministers made the decision to keep the business going and if we in BL have more influence on them than some of you do, perhaps you want to review your way of looking at this problem. It just might be that a decision to close BL (other than for reasons of suicide) may be the wrong decision at this point. And our employees continue to perform - yes, continue, Mr Chairman. With a 10% real improvement in output per man in 1980 (and much more, 25-30% at Land Rover and the Metro plants). (Don't believe all the letters you read in the press Mr. Chairman.)

"If Government funds ~~is~~ us and the pound is kept in a proper perspective we might just win through. (Incidentally, with the pound at this level it would not only be BL, but hundreds of healthy companies which will be taken to the brink on the strength of sterling alone - that is a far more fundamental issue than the survivial or not of BL and its something for you to get your teeth into: persuading the Cabinet that there are ways and means of getting the pound down.)

"Let me be absolutely clear - we have not ~~persuaded~~ tried to persuade the Government that BL is certain to recover. It would be dishonest to do that - we are too exposed to be sure of recovery. Economic circumstances are difficult, our image doesn't help, and our workforce just might decide we are bluffing and then find out (too late) that we really do mean what we say.

"Yes, we may fail, particularly if our workforce invite us to commit suicide - in which case the Board would pull the rug and we would expect the Government to back us in that painful act. But can you expect the Board or the Government to reward a moderate pay settlement, the most far reaching reform of working practices arguably ever introduced in the Western world, the launching on time of the succesful Mini Metro, and the remarkable strike free performance in 1980 . . . . to reward all this by kicking all that into touch and by kicking not the militants but the sensible average employee in the teeth? No wonder the Cabinet decided against closing the business at this time and in these circumstances, despite the £990 million bill.

"Given that, is there not some merit in pulling together and backing the efforts of our managers to succeed? Let's be clear, the BL Board has the objective of injecting private equity and involving the private sector in our business, but it must be on the basis of sound commecial judgment. It is the Board's overriding objective to reduce and eventually be free of State funding. But piece-meal, ill-timed sell-offs are not the way. There is simply no queue of buyers waiting for the "sale of the century". Peripheral parts of the business have been up for sale for more than two years with no dramatic cash intake as yet. (Look at what has happened to the erstwhile MG bidder, Aston Martin.)

"It is pie in the sky to believe that any major unprofitable part of BL is ready yet to return to the private sector, on its own.

"As to the profitable parts - we need the attractive parts of the business to attract the stategic collaboration we are actively seeking as a major plank of the recovery programme, and to fund our cash flow.

"We are not ruling out any form of collaboration, including major equity participation, which would make commercial sense and secure the future.

"But confidence is key - confidence of customer, supplier, bankers, dealers, potential partners in collaboration, and there can be no confidence in BL's future if there is constant sniping and pressure for disposals. As we told Ministers you cannot run a loss maker and try to secure recovery while large potential chunks are being advertised for sale. Try it. I promise you it is not on.

"You must allow the BL Board (which includes the Chairmen of four highly respected public companies) to exercise its ~~[illegible]~~y wide and experienced commercial judgment. I am very willing to hear how you would like us to run the business and I promise to put your proposals undiluted to the next BL Board."

"We can take constructive criticism - we cannot take being a whipping boy for political dogma of any colour. BL's new year resolution was to try harder. I hope some of you will endeavour not to - otherwise you may well neutralise our efforts. Please, can we now channel our efforts into making it work, rather than joining the lemmings in their rush to go over the top. . . For God's sake can we not have unity instead of continual divisiveness."

~~[illegible]~~

I have to admit my speech was not received with enthusiasm!

That same week the Prime Minister unwittingly supported what I had said to her backbenchers, in an interview on ITV's Weekend World

"Does it really seem to be the time to say to them, no I'm going to chop you off at the stocking tops when you've got a new car, [METRO] you're getting enormously increased improvements in productivity, you are in fact not having more people than is necessary to do the job, you're getting rid of your wreckers, you've got a new spirit of cooperation, and I know that many, many good firms in the motor car component industry, which is a very good industry, supply British Leyland . . . It was a difficult decision, I don't conceal that . . . I never want to take on another British Leyland. We shouldn't be in it at all, but now we're in it we have to choose the time and we have to back Michael Edwardes' judgment. He's the manager. I'm not the manager."

The next day Spike Milligan wrote in - he frequently writes encouraging letters - and pointed out that £990 million was a great deal of money. Could I spare some? I wrote back explaining that BL needed the whole £990 million, but I had a few quid to spare, and he was welcome to half of it. "Herewith a fiver."

Since that date Spike writes to invite me to dinner periodically, and invariably encloses a pound note. That fiver will end up as one of my better investments.

Even Henry Root, of the highly amusing "Henry Root Letters" book, when he wrote to me, declined to attached his customary pound - and this makes Spike Milligan's contribution all the more worthy. No-one will ever know whether our "shrewdness" in spotting the Henry Root ploy was in fact an oversight on our part - or real cunning....or merely that he forgot to enclose the money!)

But to return to Mrs Thatcher's interview - both then and more particularly later when Patrick Jenkin succeeded Keith Joseph as Secretary of State for Industry, I wished that the recognition of who was responsible for managing the business was always as clear as ~~her~~ she was in her statement. ~~suggested.~~ But she had expressed the Government's dilemma precisely. I had hoped for less grudging support. But we had achieved what the press saw as something of a miracle in extracting such a major funding commitment from an understandably reluctant Government; we were now able to turn our attention away from the political arena until the next battle which I foresaw as being about my successor.

We had won the battle but not the war; we had won it partly by suppressing the difference of emphasis between the Board and Government on objectives. We had not met, and could not meet, the Government's early aspirations on privatisation; but, in giving way to the commercial realities and to the "threat" (as they regrettably saw it) in my letter of 4th December 1980 concerning my personal position, Ministers had by no means been converted to the Board's point of view. I know that, in agreeing to stay on until the end of 1982 (as part of the funding package) I had given myself a further task - to clear the air with Government, so that my successor would inherit an atmosphere of mutual confidence and shared objectives. (This proved to be a difficult task as I shall explain, but at the eleventh hour I believe it was achieved.)

taken from Industry when he was

There followed several months of relative calm in our relations with the Government. From January 1981, Keith Joseph was supported at the Department of Industry by a very able Minister of State in Norman Tebbit - who unfortunately for BL, was promoted to Secretary of State for Employment only 9 months later. They made a good team. Keith set the pattern of non-intervention, while on issues in which the Government really needed to be involved, Norman provided a high level of understanding and realism, mixed with an appropriate toughness. He was also very probing.

This grasp of the situation helped us in particular over an awkward hiatus in the affiars of the Leyland Group, which looked after our worldwide truck and bus activities. As I shall explain in more detail in a later Chapter, the Board had been able to approve the Leyland section of our 1981 Corporate Plan, and we had moved David Andrews and Ron Hancock to the Chairman and Managing Director roles at the beginning of 1981 and asked them to take a new look at the whole strategy and management of that business - since the extent of its fundamental problems had not been fully appreciated by its own operating management. We had promised the Government a revised Plan by mid-1981, but by that time David and Ron were still only just getting to grips with the problem, and were some way short of a satisfactory solution. Eventually, they came up with their radical restructuring package in November, but we owed much to the understanding of Ministers and civil servants at the Department of Industry that they continued to fund the Leyland Plan pro tem, despite the heavy losses of Leyland Trucks throughout 1981, and in the absence of a convincing recovery strategy. They realised we needed time, and they had the courage to face criticism while we thought it through. And indeed we did, to some effect, to the credit of David Andrews and his team.

In September 1981 both Keith and Norman were 'reshuffled', and I was sad to see them go. Nevertheless, my first impressions of Keith's successor, Patrick Jenkin, were favourable. An introductory chat turned into a lengthy review of all the main BL issues, and I found it refreshing to be dealing with a pragmatist after the philosophical agonies which had afflicted his predecessor.

Unfortunately, I was soon to discover that this pragmatic (and politically sensitive) approach had its disadvantages. The new Secretary of State turned out to have very little concept of, or even interest in, the strategic framework of the Government's relationship with a high-calibre Board of a State-owned company. He therefore lacked any instinctive check on the political temptation to intervene in our affairs.

Intervention therefore grew substantially, on a great variety of issues which I felt were the responsibility of management. I often wondered whether the Prime Minister would have approved of the change of style at Industry, had she been aware of it - which I ~~assume~~ suspect she was not. The Secretary of State sought to involve the Government in the tactical handling of our November 1981 pay dispute; he intervened in our commercial negotiations with British Steel; he became involved in BL's relationship with its trade association, the Society of Motor Manufacturers and Traders; he opposed the appointment of an additional non-executive director to the BL Board; and he even queried

How?

OH!!!

tax avoidance.

the company's right to take its own commercial decisions in the field of taxation. The latter episode provoked me to write a letter to Patrick inviting him to ponder on the fundamental principles of the Government/BL relationship:-

> "Does the Government wish to honour the letter and spirit of the Memorandum of Understanding [governing the relationshop between the Government and BL] in requiring BL to act commercially or does it wish to qualify this by finding some means of stopping those commercial practices which it happens to dislike? The former course should help attract good and responsible management, but inevitably entails taking the rough with the smooth politically; the latter may succeed in avoiding political embarrassment but implies a degree of Government intervention in many fields (not just taxation) which would cause entrepreneurial managers to shun employment with a public sector company."

I shall return to this issue at the conclusion of this chapter. Regrettably, Whitehall is always subject to the temptation to want to run the industries which it owns, and the capacity of Chairmen to deter or fend off such interventions declines as the end of their term of office draws near. I am sure that Patrick Jenkin's learning curve, combined with the appointment of my successor, has brought the Government/BL relationship on these secondary commercial issues back on to an even keel. But the tensions caused by the change of approach in the latter of succession & organization planning half of 1981 made it very difficult to settle the broad strategy for the future. of BL after my departure - a process which absorbed ~~much of~~ an excessive amount of my time and energy for well over a year.

In June of 1981, I proposed to Keith Joseph that we should split BL into two free standing companies, with two Boards; the Chief Executive of each ~~would be Ray Horrocks and David Andrews, and each~~ would be supported by a non-executive Chairman drawn from the existing BL Board. This would make the two groupings self sufficient and would thus be a logical extension of the delegation of authority which ~~had~~ was progressively being made ~~already been made~~ to my executive colleagues. It also provided greater insulation against major industrial disruption in one or other entity. This could well save half the company in the event of forced closure of one of the businesses.

The proposal also had the great merit of spreading the top job across four broad shoulders - a technique which was in my view helpful if not vital to ensure ultimate recovery. It could not be right to continue to place an excessive burden on one man, now that the major painful actions had been driven through. At the same time, the proposal provided for the maximum possible continuity at the top of BL, which would be valued by our dealers, bankers and collaborative partners on whose confidence we depended.

Keith Joseph talked to colleagues, but there was no feedback. When Patrick Jenkin arrived, some months later, I said that succession was now an urgent matter. With little more than twelve months to go before I stepped down as Chairman, it was important to provide stability and avoid speculation. He seemed to be unaware that this issue was on the table; which was fair enough, for ~~but then~~ there were many issues requiring an incoming Secretary of State's attention.

But out ~~Out~~ of these discussions it ~~also~~ emerged that we now had two separate concepts - Government were further heightening the priority they attached to privatisation, which was at odds with the objectives the Board was working to, objectives agreed only ten months before with the Chancellor and Keith Joseph - and which had been contained in the 1981 Plan approved by Parliament.

Indeed, as this debate started the 1982 Plan was already on the Secretary of State's desk, and with hindsight it seems odd that the 1982 Plan was allowed to go through the Cabinet as smoothly as it did, with the Board' objectives still intact. Our strategy clearly stated that we would bring in minority shareholdings in due course, but we would not sell off major parts of the business, whilst we ~~which are~~ persevered ~~which~~ with recovery as the main objective.

The 1982 Plan was consistent with the 1981 Plan in terms of funding needs as well as objectives, and the Government no doubt felt that in view of their 2-year funding commitment (in January 1981) they had little choice but to let it go ahead. But when in January 1982 I pressed for an answer to my proposals for succession and organisation, the debate about objectives re-started in earnest. Although my proposals had been on the table for no less than seven months, Ministers now decided that they needed a second opinion from outside consultants, and they gave the consultants terms of reference which made it clear that the acid test of any future strucuture was whether it would inhibit privatisation.

The consultants' report recommended against the split into two companies, because it was felt that this would inhibit privatisation - an incredible conclusion which I have never understood. We felt that the opposite was the case!

Even more incredibly the report recommended that I should stay on as Chairman - incredible not only because it was my firm decision to go which had sparked off this whole debate, but also because they were questioning my judgement (and the Board's) on fundamental issues, and yet still believed that I should continue as Chairman!

The consultants argued that, if I did not stay on, BL needed a full-time Executive Chairman. I disagreed strongly, on the grounds that we now had the opportunity to move away from the excessive focus on BL and its Chairman, which was to the detriment of our individual "decentralised" operating companies, and therefore the recovery of the company. The business was under tighter control ~~Unions~~ than it had been for many years, and day to day running of the business had been properly devolved - there was no longer the need for a high-profile executive Chairman.

working with our Merchant Bank advisers.

When Ministers met to consider the consultants' report, they came no nearer to endorsing its organisational recommendations than they had come to approving my own proposals. Their attention concentrated instead on privatisation. The consultants' report had a nasty sting in its tail; en passant, it said that the only part of BL which was readily saleable was Land Rover. This was outside the consultants' remit, and indeed constituted a major commercial judgement based on limited experience and only four weeks of study. I had responded to it by agreeing with the Secretary of State to commission and internal BL study, a to determine the full implications of selling Land Rover; to be sure we all knew the relevant facts. However, Ministers seized upon the consultants' throw-away line gratefully, without waiting for BL's in-depth study. Couldn't BL sell Land Rover quickly and thereby raise funds to obviate the need for the remaining £150m Government funding envisaged for 1983 and 1984 in the Corporate Plan? Several birds would thus be killed with one stone - and all before the next General Election.

and the idea was debated at the highest level, in Government.

It was too good to be true. But it took three months of hard argument in a very tense atmosphere to show that this was not in any sense a realistic plan. On top of our own study which ~~shared~~ showed the impact (on the rest of the business) of the sale of Land Rover, we eventually had to commission the services of <u>two</u> merchant banks to demonstrate that the proceeds of such a sale in the short term would not be sufficient to relieve the Government of any of our forecast funding requirement. This arose because of the cash flow BL would lose from the separation of Land Rover. Indeed, the Government would probably have faced additional funding requests because of the loss of synergy between Land Rover and other parts of the business, plus the adverse impact of such a sale on confidence in BL.

The Board also had the interests of our 80,000 minority shareholders to consider, as well as the understanding we had with our bankers that the business would be run on commercial lines - and that we wouldn't dispose of assets which provided security for ~~these~~ their loans to us! - and anyway wecouldn't simply sell the business below book value, which is what was implied.

We could not of course depend solely on the negative side of the argument. We had to show that the continuing recovery of the business would make possible the ultimate return of all of BL to the private sector in a commercially sensible way. We also sketched out how we could make early progress towards this end by attracting private capital into our more profitable businesses.

As letters flashed backwards and forwards and meeting succeeded meeting on this issue, I feared for a long time that political dogma would overcome commercial sense and that Ministers would use the obvious means of imposing their will, by looking for a new Chairman from outside the Board who shared their ideals and would "do what he was told". However, it was clear that such a Chairman would be difficult to find and would be most unlikely to be of the calibre to command the loyalty of the Board and senior management of BL. Rumours of a Government short list reached me which made my hair stand on end.

Thankfully the weight of our argument ultimately previaled. At a meeting between Patrick Jenkin and the BL Board on 6th July (for which the ground had been well prepared in advance by various informal contacts, particularly involving Jeffrey Sterling, a realistic and down to earth businessman recently appointed as Patrick Jenkin's special industrial adviser), a mutual understanding was reached. Ministers agreed that the Board's approach to privatisation was acceptable. We had not resorted to threats of resignation but had genuinely persuaded Ministers that ours was the more sensible course - and it is to the credit of Patrick Jenkin and his colleagues that they were open minded enough to be persuaded against their preferred course of action. The air had been cleared by the "peace treaty".

My relief at this conclusion was heightened by the outcome of the parallel discussions on succession and organisation. In order to concentrate on the fight against premature privatisation, we had decided not to press a reluctant Government on the case for a complete split into two companies. Ministers clearly felt uneasy about having two separate Boards reporting directly to them, understandably preferring a strategic overlay at the BL level which distanced them from any risk of operational involvement. Given, in addition, the financial and legal work which would be involved in a complete split, I could see their point of view, provided that the new Chairman was non-executive, so that Ray Horrocks and David Andrews would be free to develop the separate identities of their businesses. Patrick Jenkin readily agreed to this concept, and as we approached agreement on the privatisation issue the Government

At Patrick Jenkin's request.

specifically requested that one of the present Board should be prepared to take over the Chairmanship so that there would be continuity in implementing the agreed objectives.

This brought the wheel full circle, since one of my main aims at the outset of the debate had been to maximise continuity. I was ~~therefore~~ delighted to take on, and eventually succeed in, the task of persuading Austin Bide to accept the job, ~~(on behalf of the Secretary of State)~~ and Bob Hunt agreed to act as his Deputy Chairman. The pieces of the jigsaw had fallen into place. Although the long debate with the Government had delayed the announcement of the succession and organisational changes until 1st September, 1982, this was still quite well in advance of the normal last-minute appointments of public sector Chairmen. Even more important was the absence of any leaks to the press throughout the long period of argument with the Government, which was to the credit of Ministers and officials. Uncertainty amongst management about the succession issue was inevitable, and public exposure of debate about privatisation in its critical phase would have done great damage inside and outside the company. BL had been through one of its most serious crises without more than a handful of its employees fully realising it. As it was, there was some nervousness at my impending departure - not I think for any reason except the obvious one that uncertainty is not good for morale.

Can one draw any general conclusions from this wealth, indeed superabundance, of experience in dealing with Government? It is perhaps unwise to generalise from the unique situation of BL, but the experience has left me with a number of clear impressions.

First, my conviction has been heavily reinforced that Government should not own industry, except where absolutely necessary. Politics and business don't mix. Business cannot cope with changes of objectives in midstream, or with the shortness of political time-horizons. Politics, with its focus on the day to day events which catch the headlines, cannot cope with the ups and downs of a company like BL, generating pressures to intervene to which Ministers cannot and should not bow. Both politicians and businessman find involvement with each other time consuming and distracting from their more central tasks. They are generally not on the same wavelength.

Secondly, I had great sympathy with the Government in that its freedom of action in BL's case was almost zero. In the case of the traditional nationalised industry - the monopolistic utility - the Government can to some extent regulate the affairs of the industry, for example through cash or pricing constraints, in line with its wider policy objectives, if it so wishes. But for a company in trouble within a highly competitive worldwide industry, there tends to be only one possible route to recovery which rests on a number of tricky commercial judgements, and which generates an inescapable level of external funding requirements. This is tantamount to stepping through a minefield, with but one benign pathway. The Government can never assemble the necessary expertise, experience and information to second-guess the Board's plans. Even its funding decisions are to all intents and purposes made for it. The only alternatives are to change the Board or to close the business. These were real alternatives in BL's case, but of course the one would have been drastic and the other extremely expensive. To be constantly presented with 'all or nothing' decisions is extremely frustrating for any Government, and this combined with the day to day political pressures is bound to make the Government/company relationship an uneasy one.

Nevertheless, my third outstanding impression is of the high intellect, conscientiousness and flexibility of all the civil servants with whom I dealt during the five years. Even in the difficult year which followed Patrick Jenkin's appointment as Secretary of State, the BL/Government relationship still worked in practice because the key people in Whitehall made up in intellectual skill what they lacked in managerial experience - and were prepared to make ~~heavy~~ appropriate use of informal channels of communication to help us through our difficulties, rather than resting solely on the formal procedures for monitoring and approval set out in our (now published) Memorandum of Understanding. Because the borderline between the Government's and the management's preserve in the state-owned industries can never be absolutely clear, there was inevitably the occasional disagreement over what BL saw as ~~an~~ unwarranted intervention, but the pressures on civil servants answerable for large sums of public money were understandable.

Also important was their willingness during our battles with both Governments to interpret their constitutional duty to Ministers in its widest sense - not blind loyalty, but a constructive desire to find a way through to a result which was commercially as well as politically sensible.

My fourth conclusion is in slight contrast to the first two, and deals with a subject that I touched on at the beginning of the book.

There is a tendency for managers and workforce in the public sector to relax the normal commercial disciplines. The mere fact of Government standing behind a company has this effect. My BL experience, however, leads me to the view that is ~~is~~ a simple admission of management failure to allow discipline to go by the Board merely because a company is state-owned.

Competition proved a considerable spur once an entrepreneurial ethos was ~~[illegible]~~ established at BL, ~~and~~ but even in more monopolistic organisations people always want to be seen to perform well and are thus capable of being stimultated into action if they see tangible fruits coming from their labours. No Board or manager should be let off the hook simply because ~~he~~ a business is in the public sector. Similarly, the dramatic improvement~~s~~ in productivity in ~~the cars~~ BL car business over the last two years shows what a public sector workforce can do when led by properly motivated and confident management. ~~We did~~ not allow Government funding to weaken management's hand in driving through ~~these~~ drastic changes. The more serious problem in dealing with Government in our experience was ~~is no the effect on attitudes and motivation but simply~~ the danger that top management ~~will~~ would become distracted from its internal tasks by the burden of meeting Government's political and bureaucratic requirements. By concentrating our dealings with Government on a small group of people in BL headquarters, we tried to minimise this, but I was on many occasions concerned at the amount of valuable Board time which was absorbed by Government issues. This left insufficient time to be outward looking. While companies are controlled by the State there ~~There~~ is no ready solution to this - one can only be vigilant to the danger, and hope that politicians will become increasingly aware of this impact. Indeed this is one of the objectives of this book.

Finally, I believe that all these factors point to the need for Government to subordinate ~~all~~ other concerns about public sector industries to the absolute priority of recruiting and keeping high calibre Chairmen, and Boards, to run these industries - since this will be the chief determinant of success or failure. This means paying the going rate in the business world and allowing very great freedom of action to these Boards. Neither of these precepts is easy to follow politically; and this course of action does not guarantee success, since sometimes the crucial choice of Chairman or senior executives will turn out to have been wrong. But it is surely better to take the risk (and when necessary change the man!) than to perpetuate the mess which has been made of the British Government's ownership of industry over the last twenty years.

Here I must pay tribute to Mrs Thatcher. At no stage did she show the slightest inclination to interfere in our employee relations issues; even when we were in a crisis I had complete confidence that she would stand back and quite properly let us wrestle with the problem. Some of her lieutenants might have wanted to second-guess us on these occasions - but never the Prime Minister. She knew that our credibility would quickly erode if Government engaged in the commercial jungle that was ours to oversee.

Next to the funds, which she made available (however reluctantly) the key factor in giving BL a fighting chance was that Government should give us the space, the headroom, to resolve our employee problems. This she did, with no reluctance whatever.

Given the right Board, let them get on with the job - let them fight their corner without let or hindrance. And that can mean having to listen to the appointees voicing their concern about Government policy! Not an easy thing for Ministers to live with, even in a democratic society!

SECRET

Ind. Policy

cc Emp
DOT
CO
CPRS.

10 DOWNING STREET

From the Private Secretary 4 August 1982

BL

The Prime Minister has seen your Secretary of State's recent minute. She agrees that he should speak to Sir Michael Edwardes on the lines suggested in paragraph 4 of his minute. She has, however, commented that the fee of £65,000 to be offered to Sir Austin Bide is very generous, and may make it more difficult for him to call on his workforce to exercise pay restraint.

I am copying this to Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry.

PRIME MINISTER

You expressed some concern at the proposal to pay Sir Austin Bide £65,000 a year as part-time Chairman of BL.

Briefly, the position is as follows. In 1980 Sir Austin Bide was paid £88,000 as full-time Chairman of Glaxo. In 1981, he became part-time Chairman, and his salary was revised downwards to £64,000. After his appointment to BL, he will devote about 40% of his time to Glaxo, and will continue to be paid £64,000 for that. The proposal is that he should be paid £65,000 for the other 60% of his time that he devotes to BL. Both BL and the Department of Industry feel this is a reasonable deal, and I understand the Treasury take the same view.

Formally the process of appointment and the terms and conditions involved are a matter for the BL Board. We could ask Patrick Jenkin to suggest to Michael Edwardes that the proposed salary for Sir Austin is excessive, but the Department of Industry tell me that Sir Michael had to work hard to persuade Sir Austin to take on the Chairmanship of BL, and they are worried that the deal might fall through if we tried to reopen the question of Sir Austin's salary.

In these circumstances, are you content for Patrick Jenkin to tell Sir Michael that we are happy for Sir Austin Bide to be appointed?

Agreed - but for a company losing so much money it is a lot. And I wonder how such a Chairman can possibly have grounds for asking the others who work for the company to hold down their own pay. MT

2 August 1982

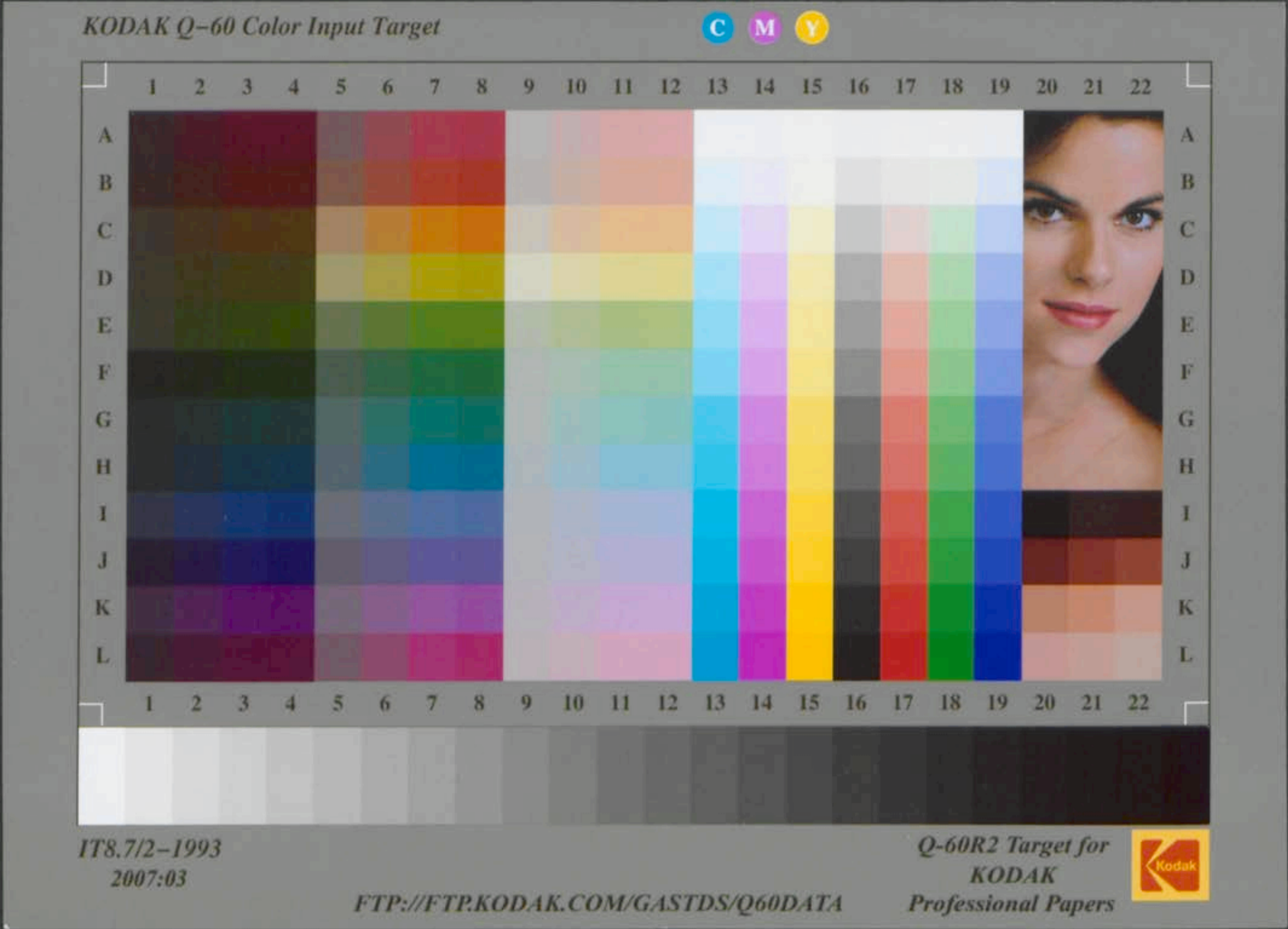
PART 6 ends:-

SS DoI to PM
29-7-82

PART 7 begins:-

WR to PM

2-8-82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