

The future of British Leyland.

Possible transfer of B.L. from the

N.E.B.'s responsibilities

ART 5

INDUSTRIAL  
POLICY

Part 1: September 1979

Part 5: January 1981

Referred to	Date	Referred to	Date	Referred to	Date
<del>26-1-81</del>		<del>23-6-81</del>			
29-1-81.		3-8-81			
<del>4-2-81</del>		<del>10-10-81</del>			
<del>13-2-81</del>		<del>23-10-81</del>			
<del>27-2-81</del>		<del>27-10-81</del>			
24-3-81		29-10-81			
<del>6-4-81</del>		<del>2-11-81</del>			
<del>16-4-81</del>		30-10-81			
<del>27-4-81</del>					
15-6-81		- ends -			
27-7-81					

PREM 19/493

Material used by  
Official Historian  
DO NOT DESTROY

PART 5 ends:-

31.10.87

PART 6 begins:-

1.11.87

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons: Third Report  
from the Industry and Trade  
Committee, Session 1980-81  
"Finance for BL"  
Published by HMSO, 15 April 1981

2. House of Commons Hansard,  
29 October 1981, columns 1082 - 1098  
"British Leyland"

Signed Wayland Date 10 May 2011

PREM Records Team

PRIME MINISTER

*MS*

British Leyland

I have just received a report from Patrick Jenkin's office of the meeting he held this morning with the four union leaders.

This went very much as predicted. The union side accepted that Mr. Jenkin would not see them again after the ACAS talks; they also accepted that there was no extra money available. The worrying feature of the talks was that the union leaders seemed to be convinced that Michael Edwardes wishes to close BL down, and they went off to the ACAS meeting, apparently, in a fairly truculent mood.

I have arranged to receive a report of the ACAS talks around 5 o'clock this afternoon, and will keep you up-to-date.

31 October 1981

MICHAEL SCHOLAR

CONFIDENTIAL



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

31 October 1981

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

Prime Minister to see.

N.P.G. Mitchell

Duty Clerk

31/10/81

Mufired to Chagrest 1445

Dear Michael

BL PAY DISPUTE

My Secretary of State and Mr Lamont met Mr Alex Kitson, Mr Greville Hawley, Sir John Boyd and Mr Ken Cure at the Department of Industry at 9.30am on Saturday 31 October shortly before the union and management teams were due to meet again under ACAS auspices.

Mr Kitson said that he had approached the Government as the biggest shareholder in BL, both because of the unions' concern about the future of BL itself and because of the spin-off effect on a wide range of other interests, including, for example, small shop-keepers etc. In his view it would not take much to secure a settlement; all that was needed was some movement by the BL management away from their firm stand on no new money being available. If Sir Michael stood by this line in the ACAS discussions, they would break down and, if that happened, Mr Kitson and the other union leaders intended to come to the Government to ask for additional money. The union leadership had gone a long way to seek to secure a settlement but Sir Michael Edwardes had adopted a "brutal line" in the negotiations. The union side could not understand why, if Sir Michael was confident about the success of the Corporate Plan, he could not consolidate some of the bonus payments into basic rates which would be a way of providing new money.

My Secretary of State explained that the Government would not make additional money available to BL. Large sums had been spent already and more money was available subject to the submission of BL's next Corporate Plan. The Government wanted BL to succeed but it was up to the BL Board to decide whether to submit their Corporate Plan which depended on their view on BL's viability. If the Board decided that they could not submit the Corporate Plan, they would have to consider alternatives and it had always been on the cards that either external factors or an internal

CONFIDENTIAL

CONFIDENTIAL



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

31 October 1981

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

Prime Minister to see.

*N.P.G. Mitchell*

*Duty Clerk*

*31/10/81*

*Mufaced to Chagress 1445*

*Dear Michael*

BL PAY DISPUTE

My Secretary of State and Mr Lamont met Mr Alex Kitson, Mr Greville Hawley, Sir John Boyd and Mr Ken Cure at the Department of Industry at 9.30am on Saturday 31 October shortly before the union and management teams were due to meet again under ACAS auspices.

Mr Kitson said that he had approached the Government as the biggest shareholder in BL, both because of the unions' concern about the future of BL itself and because of the spin-off effect on a wide range of other interests, including, for example, small shop-keepers etc. In his view it would not take much to secure a settlement; all that was needed was some movement by the BL management away from their firm stand on no new money being available. If Sir Michael stood by this line in the ACAS discussions, they would break down and, if that happened, Mr Kitson and the other union leaders intended to come to the Government to ask for additional money. The union leadership had gone a long way to seek to secure a settlement but Sir Michael Edwardes had adopted a "brutal line" in the negotiations. The union side could not understand why, if Sir Michael was confident about the success of the Corporate Plan, he could not consolidate some of the bonus payments into basic rates which would be a way of providing new money.

My Secretary of State explained that the Government would not make additional money available to BL. Large sums had been spent already and more money was available subject to the submission of BL's next Corporate Plan. The Government wanted BL to succeed but it was up to the BL Board to decide whether to submit their Corporate Plan which depended on their view on BL's viability. If the Board decided that they could not submit the Corporate Plan, they would have to consider alternatives and it had always been on the cards that either external factors or an internal

CONFIDENTIAL



CONFIDENTIAL

strike would make it necessary for the Board to consult the Government about liquidation. The Government had appointed the Board to run BL and it was up to them to decide how to use the money which had been made available; the Government could not attempt to run BL. If the Board came to the conclusion, having lived with BL's problems for three and a half years, that the Company was not viable, the Government would not step in again. He was disturbed by the reports, particularly in the "Sun" newspaper, that the workforce did not believe that BL might close. The position was that, if the workforce went on strike and the factories closed, there was a real prospect of liquidation.

In discussion, both Mr Hawley and Mr Cure suggested that Sir Michael Edwardes wished to close down BL. They placed great emphasis on the lack of flexibility in BL's negotiating position and described what they saw as the deterioration in the industrial relations situation at BL over the previous years. In their view the workforce did understand that there was a real prospect of closure; the foremen were issuing the crudest possible threats to the workforce and white collar staff had been told to clear their lockers.

My Secretary of State dismissed the idea that Sir Michael Edwardes or the BL Board wished to close down BL. Sir Michael had been in close touch with the Government and his Board clearly wanted to see the Company through to viability. The unions were gravely mistaken if they saw the current events as a plot to close BL.

As the meeting closed, my Secretary of State referred back to Mr Kitson's suggestion that the union side could come back to the Government if the ACAS negotiations broke down. This was simply not on; he could not sit as a court of appeal against ACAS. Mr Kitson appeared to accept this conclusion.

I am copying this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment and to Sir Robert Armstrong and to Mr Robin Ibbs.

*Yours ever*  
*lan*

I K C ELLISON  
Private Secretary

CONFIDENTIAL



CONFIDENTIAL

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

30 October 1981

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

Prime Minister

I will keep you in touch  
with any developments  
over the weekend.

Dear Michael

BL PAY DISPUTE

Ms 30/10

My Secretary of State thinks that the Prime Minister and his other colleagues will wish to have a report on the BL dispute as it reaches its most critical stage this weekend.

2 On the evening of 29 October talks between BL and the unions at the Headquarters of the Advisory Conciliation and Arbitration Service (ACAS) broke down but another meeting has been fixed for 11.00am on Saturday 31 October at which Sir Michael Edwardes will be meeting the General Secretaries of all the unions involved in the dispute. Sir Michael has told my Secretary of State that he intends to seek to defuse the situation by seeing whether the unions would be prepared to withdraw their strike threat in return for BL withdrawing their public letter threatening dismissals and closures if the strike proceeds.

3 On the substance of the dispute Sir Michael does not envisage offering any more than marginal concessions, which would help the unions with the presentation of their position if they wished to call off the strike. He is firmly resolved not to put forward to the Government a 1982 Corporate Plan which would require more than the £990 million agreed for 1981-82 and 1982-83. Nor would he be willing to put forward a Plan, which he knew could not be fulfilled because BL had granted wage increases which they could not afford.

4 Sir Michael has also told my Secretary of State that he has met the Leader of the Opposition at the latter's request and that he impressed upon him that the BL Board had not in any way been influenced by the Government either in making its 3.8% pay offer or subsequently. My Secretary of State thinks that, if Mr Foot genuinely accepts the point, this is a helpful development.

CONFIDENTIAL





CONFIDENTIAL

5 My Secretary of State has been asked by Mr Kitson of the TGWU to meet him to discuss the dispute. He had previously spoken to the Chancellor and the Secretary of State for Employment about this possibility and Mr Jenkin therefore told Mr Kitson that he would be ready to hear the views of the unions. He stressed to him, however, that the Government could not become involved in the negotiations and, after discussion with Sir Michael, said that the meeting should take place before, not after, the meeting at ACAS Headquarters. This timing seeks to avoid the unions attempting to treat the Government as a court of appeal from the ACAS negotiations and thereby undermining the chances of ACAS succeeding in bringing about an agreement. After some hesitation and an attempt to persuade him to change his mind, Mr Kitson accepted my Secretary of State's views on timing. He readily accepted that the Government should not intervene in the negotiations; he personally was not a member of the union negotiating team. The upshot is that Mr Kitson accompanied by Mr Hawley (both TGWU), Sir John Boyd and Mr Cure (both AUEW) are calling on my Secretary of State at 9.15am on Saturday 31 October. My Secretary of State intends to follow the line taken by the Prime Minister in her Questions but will add that he would be unwilling to see the unions if the ACAS negotiations fail to reach agreement.

6 The Prime Minister may wish to know that the following contingency planning is in hand against the eventuality of a serious strike starting on 2 November:

- a Ministers have agreed that Government guarantees should, if necessary, be provided to secure BL's existing borrowings and short term facilities. Some reaffirmation will be necessary early next week of Government assurances to BL's other creditors. My Secretary of State will shortly let the Chancellor know what he proposes to say;
- b BL staff have prepared for their Board a detailed contingency plan covering key issues such as how businesses like Land Rover, Unipart and Jaguar could be kept going or sold if the workers there were not on strike. The Leyland Group is already a separate legal entity;
- c the Bank of England have undertaken a confidential exercise with the general managements of the four London Clearing Banks to obtain their assessment of the likely impact of a BL liquidation on BL's component suppliers;

CONFIDENTIAL



CONFIDENTIAL

- d the Treasury, in consultation with ~~My~~ Department and the Department of Employment, has prepared a note on the economic and financial consequences of a BL liquidation;
- e my Secretary of State has kept in touch with the Secretary of State for Employment about the progress of the negotiations between BL and the unions, and officials of the two Departments have consulted about questions of employment law arising from the dispute;
- f officials have been in touch with the Home Office about the scale and location of possible dismissals and redundancies which might arise if the strike proceeded. The Home Office has, in turn, warned in strict confidence the Chief Constables of the West Midlands and Thames Valley forces so that they might gauge the scale of preparations they ought to make;
- g the Department of Trade is reviewing some studies carried out last year on what might be done to ensure that the closure of BL Cars would not lead to a surge in imports of cars, especially from third countries. There is little doubt that the Japanese, in particular, would be able greatly to increase their exports of cars to this country at short notice.

7 My Secretary of State will be seeing Michael Edwardes again on Tuesday, 3 November, by when the gravity of the strike, if it takes place, should be apparent. The BL Board's next meeting is on 4 November. My Secretary of State will keep the Prime Minister and other colleagues informed of the position.

8 I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment and to Sir Robert Armstrong and Mr Robin Ibbs.

*Yours ever*

*I K C Ellison*

I K C ELLISON  
Private Secretary

CONFIDENTIAL



fcc 001  
cc CO

ku

10 DOWNING STREET

*From the Private Secretary*

30 October 1981

BL

The Prime Minister was grateful for your minute to me of 27 October about the current situation at BL. At her suggestion, I have sent a copy of your minute to the Secretary of State for Industry.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. C. SCHOLAR

Robin Ibbs, Esq.,  
Central Policy Review Staff.

Sol

SIR ROBERT ARMSTRONG

BL

The Prime Minister was grateful for your minute to Mr. Whitmore of 28 October about your further contacts in the BL dispute.

MICHAEL SCHOLAR

30 October 1981

81

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE



*Ind Pol*  
*AD*  
*NRPM*

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

29 October 1981

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

*Dear Patrick*

BL/HONDA COLLABORATION

I have seen a copy of your minute to the Prime Minister of 23 October in which you recommend that agreement should be given to BL signing a letter of intent with Honda for a collaborative venture on a new executive car. I am content with what you propose, on the understanding that nothing is being done which could increase the costs to the Government if the threatened industrial action at BL does go ahead next week.

I am copying this letter to the Prime Minister, the Secretary of State for Employment, Sir Robert Armstrong and Mr. Robin Ibbs.

*2 -*  
*Jenkin*

GEOFFREY HOWE

CONFIDENTIAL

Handwritten initials "BL" and a small dot.

Handwritten initials "JMS".

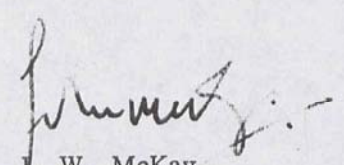


**BL Public Limited Company**  
35-38 Portman Square  
London W1H 0HQ  
Telephone: 01-486 6000  
Telex: 263654  
Cables: Leymotors London W1 Telex

Dear Member of Parliament,

We enclose a copy of the statement issued today by the BL Board, which sets out the position reached following further discussions with BL's two main unions and the TUC.

Yours sincerely,

  
J. W. McKay  
Director of Communications and  
External Affairs

28th October, 1981



BL Limited

Prime Minister

(2)

News  
Service

MCS 28/10

Communications Dept., 35-38 Portman Square, London W1H 0HQ. Telephone: 01-486 6000. Telex: 261246

28 October 1981

To: Industrial Correspondents

*ms*

A statement from the BL Board

As a result of a meeting on Sunday October 25 between Mr Alex Kitson, Mr Terry Duffy, Mr Grenville Hawley and Mr Ken Cure, and BL management represented by Sir Michael Edwardes, Mr Ray Horrocks, Mr David Andrews and Mr Geoff Armstrong, it was agreed that in view of the serious impact a strike at BL would have on the British motor industry the TUC should be invited to join a meeting with BL.

On Monday, October 26, following a discussion between Mr Alex Kitson and Mr Len Murray, it was agreed that the General Secretaries of the TUC, AUEW and TGWU would accept an invitation from the BL Board to meet on Tuesday October 27 to discuss the situation.

At that meeting the BL Board made the following points:

1. The BL Board is prepared to support the 1982 Corporate Plan. It cannot give that support if there is to be effective and financially damaging strike action.
2. There is no money available to increase the grade rates further or to increase the cost of the settlement. We cannot add further to our costs without further eroding our competitive position.
3. The Cars companies cannot survive the cost and market share effect of a strike even for a few days.

.../

4. Although the general increases effective in November 1979 and 1980 were in single figures, the overall increase in 40-hour earnings over the period from October 1979 to September 1981 - taking account of parity and bonus payments - was 29%.
5. Mass meetings were held by the unions and a strike decision taken before the company had tabled its bonus offer which guarantees £3.75. The workforce has not been given the chance to vote on this full offer.
6. Since the incentive scheme was introduced in April 1980 the bonus trend has been consistently upwards to the point where average bonus is currently running at approximately £11.50 a week. With the volume projections for 1982 and the more stable employment levels of hourly graded employees, the Cars companies are confident that further significant improvements in productivity and in bonus earnings are available. The fact that the Cars companies have lifted the bonus ceiling to £30 a week is a real opportunity and will result in some plants exceeding the previous ceiling of £22.50 during 1982.
7. In addition the Board indicated that in view of the concerns expressed about the state of industrial relations in the Cars companies, it was prepared to support urgent initiatives to establish a new procedure agreement which would establish joint bodies for the involvement of trade unions and employees in considering the performance and plans of the companies.
8. The terms of reference of these joint bodies will include monitoring the operation of the incentive



scheme and identifying opportunities for further productivity improvement in the various plants so that higher bonus payments may be earned.

9. The BL Board said it would put forward the 1982 Corporate Plan to Government rather than initiate the action regarding employment and assets referred to in the letter of October 12 if the unions would accept the settlement proposed and call off the strike called for Nov 1, 1981.
10. As set out in the joint statement, no progress was made and a meeting of the BL Cars' trades union negotiating committee was called by the unions for today.

At a further meeting of the Board this morning it was decided that:

- a. In present circumstances the Board is not able to submit the 1982 Corporate Plan to Government.
- b. If there is widespread and financially damaging strike action then the consequences will be as set out in the letter of 12 October to the AUEW, TGWU and the TUC. In its efforts to avert such a strike the Board will keep open its proposal put to the unions yesterday and set out above in paragraph 9.

The BL Board appeals to the General Secretaries of the unions concerned to call off the strike in view of its potentially disastrous effect on BL, its employees, and the nation.

\*\*\*\*\*

Prime Minister  
/ JWS  
280

PERSONAL AND CONFIDENTIAL

MR. WHITMORE

British Leyland

In my minute of 26th October I said that I would keep you informed of any further contacts I might have on the British Leyland dispute.

2. Following yesterday's meeting, I understand that the management do not envisage any further action on their part in the immediate future. Len Murray and the General Secretaries of the Unions concerned are meeting the Shop Stewards this afternoon in an effort to see whether it is possible to find some way forward. British Leyland management remain convinced that the Union leaders are anxious to find a solution but are only too conscious of the difficulty of doing this in a way which will not cause the shop stewards to lose face with the workforce. It seems likely that there will be an approach from ACAS to both parties for an early meeting. If this happens, the management are expected to accept the invitation; but in doing so they will stress that they have no more money to offer. The management are very anxious that this reaction to an anticipated ACAS invitation should remain strictly confidential.

3. Sir Michael Edwardes is to speak to the Secretary of State for Industry today to bring him up to date. Sir Michael may go on television this evening (probably on Nationwide) to reaffirm the Company's position.

4. The Company were very pleased with the line which the Prime Minister took on the dispute in the House yesterday. They have described it as "excellent". They remain anxious that the Government's non-interventionist line should not falter. At the same time they realise that the Government will want to be assured that, if the BL management go ahead and send out dismissal notices next Monday, they are not simply being "trigger happy" but are taking this step after a full and rational examination of the alternatives open to them. In this respect, I recognise the force of paragraph 5 of Mr. Ibbs's minute to Mr. Scholar. The time may come when we will need to make sure that BL get a message to this effect. That moment may arise if and when the BL management think that it would be helpful if the Government could make the

PERSONAL AND CONFIDENTIAL

sort of statement about not questioning the management's decision which was mentioned in paragraph 6 of my earlier minute.

RA

Robert Armstrong

28th October 1981

PERSONAL AND CONFIDENTIAL



10, DOWNING STREET

3

J.A.  
cc CSD  
HWTS  
D/I  
D/Trans

THE PRIME MINISTER

27 October 1981

Dear Mr. Berger,

Thank you for your letter of 3 October about the salaries of Board Chairmen.

I recognise your concern, and indeed that of other people, at the different levels of pay increase for some board chairmen, when compared to those of most employees, and I would like to take this opportunity to explain the Government's policy on pay, particularly in the nationalised industries.

The Government believe that a decline in the level of pay increases is essential to the economic recovery of the country, and that is why in drawing up its public expenditure plans for 1982-83 the Government has taken a figure of 4% as the general factor for the rise in earnings in the coming year. But this does not imply a rigid and inflexible incomes policy. You will recall that in reply to a PQ by Bill Walker, MP, on 7 April about the new arrangements for settling the pay of nationalised industry board members that the need to recruit and retain able enough people would be among the factors taken into account. The nationalised industries need to be run by people of high calibre and it is inevitable that market considerations should play a part in determining the level of their salaries. Nevertheless I can assure you that the general level of increases for board members that we have agreed to this year has been modest.

Of the two individuals you mention specifically, Sir Michael Edwardes' salary increase earlier this year was decided by the board of BL, not the Government. BL is not a

/nationalised

nationalised industry and it would not, therefore, be appropriate for me to comment. I am sure, however, that BL would be ready to give you a fuller response to your constituent's complaint. The circumstances of Sir Peter Parker's increase of salary were different. We were negotiating a new contract and the Government considered his new salary should reflect his value in running a major industry. You will appreciate that if we are to overcome the undoubted problems of our railway services then we must secure good management to tackle the task.

*Yours sincerely*  
*Raymond Stiller*

---

Geraint Morgan, Esq., QC, MP.

*RS*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 Victoria Street  
London SW1E 6RB

Telephone

Direct Line: 01-212 3301  
Switchboard: 01-212 7676

27. 10. 1981.

M. Scholau *MS*

*With the Compliments of the*  
Private Secretary to the  
Secretary of State for  
Industry

*I Ellison*



CONFIDENTIAL

Prime Minister

(1)

This is the note on the legal position with BL  
you asked for at Monday's meeting. I understand that the  
BL Board will meet on Wednesday next week and  
that Michael Edwards will be in touch with

POSSIBLE LIQUIDATION: THE LEGAL AND PRACTICAL BACKGROUND Patrick Jenkin

1 Legal position

Under the Companies Acts, there are three ways of proceeding to  
liquidation:

ACAS meeting was planned to take place  
this evening.

a) Creditors' voluntary - a petition by creditors of the  
company to the Court for the winding-up of the company.  
The court then appoints a liquidator to the court, to  
act on the creditors' behalf. MS 28/10

/responsible

b) If directors believe that the company can pay its debts,  
Members' voluntary - either the directors call a meeting  
of members (shareholders) or the members can themselves  
requisition a meeting. The directors must be able to  
make a declaration of solvency.

c) If Directors do not believe the company can pay its  
debts: compulsory winding up under a petition by the  
directors who, if they continued to allow the company to  
trade, could be personally liable in a winding up under  
Section 332 of the Companies Act 1948. The resultant  
winding up process is similar to a creditors' voluntary.

2 In practice

The position at BL is complicated by

- i) the position of the Government as major shareholder
- ii) the public assurance to shareholders (the "Varley-  
Marshall" statement).

In principle, the Government as major shareholder could requisition  
a meeting to declare a members' voluntary liquidation. In  
practice, this is not likely to be the best course, at least  
initially, because of the Government's public assurance to share-  
holders that BL's obligations will be honoured (the "Varley-  
Marshall" statement, confirmed by Sir Keith Joseph on 31 March  
1981 when the shares in BL were transferred from the NEB). This  
statement allows the Government the means to ensure an orderly,  
rather than a precipitate honouring of obligations and a controlled  
effect on the PSBR. To ensure that this prime objective is  
possible, Ministers have agreed to the issue of specific guarantees  
to financial creditors and bank overdraft facilities so that both  
finance and trade debts can be handled in an orderly way.

The Board will therefore be asked to remain, at least initially,  
in charge; their remit will be to keep as much as possible going,  
and to dispose of as much as possible - in effect, to act as  
"liquidators" but not in the normal company law sense. Because  
of the guarantees, there would be no need for creditors to  
petition for a liquidation; and no need for the Board to cease  
operation because of Section 332 of the Companies Act.



CONFIDENTIAL

The likely outcome

Against this background the process of "effective liquidation" is likely to be as follows:

- i) the BL Board declares that it is either closing individual plants or putting the whole of BL Cars into liquidation;
- 'ii) the Government asks BL Board to remain in control of those parts of BL which continue to operate, and to act as "liquidator" for the remainder. There may need to be
  - a) a formal request from the Government as shareholder to the Board to this effect;
  - b) the appointment to the Board of an expert in the process of liquidation. #The Board will need to be consulted on both these points;
  - c) action by Government to reassure creditors. This should take the form of a new public statement to reassure trade creditors, and - where necessary - guarantees for finance debts and overdrafts.

Department of Industry  
27 October 1981



BL LIQUIDATION: A POSSIBLE CRITICAL PATH

	Monday 2 Nov	Tuesday 3 Nov	Wednesday 4 Nov	Thursday 5 Nov	Friday 6 Nov to end- Nov (and beyond)
Board action.	Strike starts.	Board sends dismissal notices.		Board willing to withdraw dismissal notices up to this point if signs of strike crumbling. Start closing plants.	Seek opportunities to sell plants and other assets where possible.
Government action.	Reaffirmation of Government assurances to creditors (date of issue of guarantees depends on circumstances).				
Possible Government intervention		Intervene to delay dismissal notices.		Intervene to delay plant closures; extend period when dismissal notices could be withdrawn.	Intervene to assist disposal eg diplomatic pressure on foreign companies, pressure on unions to cooperate etc.



bc Mr. Hoskyns  
Mr. Walters

10 DOWNING STREET

From the Private Secretary

27 October, 1981.

BL

The Prime Minister had a discussion yesterday evening about the present situation at BL with the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Employment, Sir Robert Armstrong and Mr. Robin Ibbs.

The Prime Minister endorsed the suggested defensive line for use by Ministers attached to your Secretary of State's letter of 22 October to the Lord President of the Council. It was most important for Ministers to go no further than this. The Prime Minister said that Ministers should make it plain that the Government are not seeking in any way to influence the Board in its handling of the matter. On the other hand, nothing should be said which might lead those involved and the public mistakenly to believe that Sir Michael Edwardes's present course of action was being dictated by the Government.

The Prime Minister asked your Secretary of State urgently to consider what the legal position would be if the strike went ahead next week. What could Sir Michael Edwardes do without reference to the Government? What in law was he obliged to refer to the Government? What, precisely, was the Government's legal locus in the matter, and what was the critical path for any consultations with the Government which he might make?

I am sending copies of this letter to John Kerr (HM Treasury), Richard Dykes (Department of Employment), David Young (Department of Industry), David Wright (Cabinet Office) and Gerry Spence (Central Policy Review Staff).

M. C. SCHOLAR

Ian Ellison, Esq.,  
Department of Industry.

SECRET

Prime Minister

(2)

CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

To note

MUS 28/10

Qa 05708

To: MR SCHOLAR

From: J R IBBS

27 October 1981

*I think Robert  
Tucker should have  
a copy of this note.  
MJ.*

BL

1. I should like briefly to develop the point I raised at the end of the Prime Minister's meeting yesterday evening. It concerns the decision which may be taken next week, if a strike occurs, to send out notices of dismissal and thereby initiate the closure of BL in its present form. The decision may have to be taken in circumstances of some complexity and confusion.

2. It is likely that, if the need arises, Michael Edwardes and the BL Board will take the decision on a basis that is well justified in management terms in the light of earlier statements and warnings to the work force. The decision may also be obviously fully justified in economic and political terms but this does not necessarily follow.

3. The reason for closing BL, if the situation reaches that point, should be that it is no longer able to continue to operate viably within the funds available. The strike may be the cause of such loss of viability but it is not in itself good grounds for closure from a national viewpoint. It will, therefore, be important to be able to demonstrate -

(a) that the strike has caused the financial difference which tilts BL to non-viability;

(b) that the handling of events leading to the strike did not provoke it.

4. On (b) the Government is in the hands of Michael Edwardes and the BL Board. The dangers from involvement in the dispute have been judged to be greater than the risk of the dispute being mishandled.

5. On (a) the Government needs to ensure that letters of dismissal are not sent out until the strike is clearly of a size and duration that destroys viability. It is important that statements by Michael Edwardes

CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

this week on the theme 'strike means closure' are not so rigid as to close the option of waiting long enough during the early confused days to carry conviction when initiating closure, that fatal damage has been done.

6. If BL closes it would be tragic if the simple economic lessons became obscured. The fact that the strike caused losses which finally destroyed the viability of BL will need to stand out clearly in the furore that will occur when it is realised that the work force have made themselves unemployed without redundancy payments, many after long service, and have severely increased unemployment in the West Midlands. I believe Ministers should take positive steps now to ensure that there is no doubt about this central fact if closure occurs.

7. Obviously any action of this kind would have to be handled with very great care to avoid anything that Michael Edwardes might regard as involvement in the dispute itself, weakening his position or as reduced resolve to stick to existing financial limits.

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

JR/



10 DOWNING STREET

*From the Private Secretary*

26 October, 1981

BL: Guarantees

The Prime Minister has seen your Secretary of State's minute of 22 October about the need to be ready to provide Government guarantees to prevent a run on BL.

The Prime Minister is content to proceed as proposed by your Secretary of State.

I am copying this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

I Ellison, Esq  
Department of Industry

**CONFIDENTIAL**

Ref. A05807

MR. WHITMORE

British Leyland

I met Sir Michael Edwardes last week by chance; and it was evident from our talk that he would value the chance of remaining in contact, on an entirely personal and private basis, during the present crisis in BL's affairs.

2. His tactics remain as reported last week: to keep a fairly low profile until about the middle of this week, when he will go on television, to emphasise that there really is no more money for an increase in the basic offer of 3.8 per cent, and to underline what would be at stake if a strike went ahead.

3. He is in private contact with the leaders of the two unions mainly concerned (TGWU and AUEW). Though the larger meeting they had with the unions last week broke down, he believes that it began to produce an evolution in the thinking of the unions. He believes that the rank and file are beginning to be more realistic about the prospect. He does not, however, propose to have a secret ballot, since he believes that, if people are asked to vote on whether they want more pay or not, it is difficult for them to cast a vote which says that they do not. He is therefore relying on them voting with their feet, and coming in to work on 2nd November.

4. His main concern is about the shop stewards. He believes that they see the strike threat as a political operation just as much as an industrial operation. They claim that BL management, with its offer of 3.8 per cent, is acting as the stalking-horse for the Government's 4 per cent; they doubt whether the Government would allow the management to go ahead with closure, because of the industrial consequences in the West Midlands; and they believe that, if the Government did allow closure, the political repercussions could force an early General Election. In other words, they see themselves as being in very much the same position as the National Union of Mineworkers in the winter of 1973.

5. Against this background, it is obviously important that the Government should maintain its position of non-intervention. Sir Michael Edwardes does not want to see statements by the Government publicly supporting the 3.8 per cent offer, since such statements would encourage the belief that BL management was simply executing Government policy. For the time being, Sir Michael Edwardes would like the Government to stick to the position that industrial relations in British Leyland are a matter for management, and the Government has no intention of intervening.

6. The time may come later in the week when it would help to bring a further note of realism to the attitudes of the workforce if a Minister would indicate that, if the management decided that they had to close the Cars Division, the Government would not wish to question that decision, since the management were in charge of the company. But the time has not yet come when Sir Michael Edwardes would wish that to be said.

7. Sir Michael Edwardes obviously feels that the Secretary of State for Industry has been talking a little too freely to backbenchers and others about possible room for manoeuvre on bonus payments.

8. I will keep you informed of any further contacts I have on this over the next few days.

REA

ROBERT ARMSTRONG

26th October, 1981



FILE

RH

10 DOWNING STREET

*From the Private Secretary*

26 October, 1981

BL/Honda Collaboration

The Prime Minister has seen your Secretary of State's minute of 23 October about the proposal that BL should sign a letter of intent with Honda.

The Prime Minister is content for BL to proceed with the collaboration with Honda, as proposed in your Secretary of State's minute.

I am sending copies of this letter to John Kerr (HM Treasury), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

C. SCHOLAR

I Ellison, Esq  
Department of Industry

CONFIDENTIAL

BK





CABINET OFFICE  
*Central Policy Review Staff*

With the compliments of  
From : J. R. Ibbs

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765



cc A. Duguid  
A. Walters

Prime Minister

(2)

MLs 23/10

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05705

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

23 October 1981

Dear Secretary of State,

BL Dispute

You sent me a copy of your minute to the Prime Minister dated 21 October on the industrial relations situation in BL.

TPM — I wholly support the need to stand absolutely firm on the basic pay offer that has been made. I also agree that it is for the Board to decide in the light of events and BL's financial position the point at which closure becomes inevitable, and that Ministers should avoid being drawn into the dispute.

My main concern is that the public should receive the right message if closure occurs. Arguments about 'withdrawing the Plan' are too complex for this purpose - indeed, this line can easily be made to sound vindictive. In the simplest terms, Leyland has been generously treated with financial support from public funds, the work force has chosen not to accept the best offer that could be made within the money available and a strike is a further drain on the already tight finances and makes continuation impossible because the money to do so has gone. The work force by choosing to strike destroys its own jobs and those of many who supply BL.

There is already evidence that the unions, quite understandably, are working vigorously to avoid this charge of self-destruction and to place the blame on the Board and the Government. Their arguments include "we were refused a fair day's pay", and "we cannot allow ourselves to be bullied by being denied our fundamental right to strike", and "it is the

The Rt Hon Patrick Jenkin MP  
Department of Industry  
ASHDOWN HOUSE  
S W 1

CONFIDENTIAL

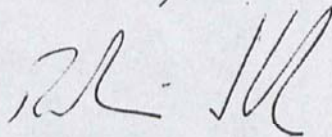
CONFIDENTIAL  
COMMERCIAL - IN CONFIDENCE

Government who through refusing to be fair and reasonable after sustained co-operation from the work force have destroyed the jobs through sheer inflexibility". The last is the most dangerous argument in its potential effect on attitudes about pay. It is of the utmost importance that if BL does close it should be widely recognised that it was the work force who destroyed its slender viability - not that the Government arbitrarily withdrew support.

It is not certain that the right simple message will emerge naturally from events and statements by Michael Edwardes - clever opponents may have some success, for example in representing him as 'closing down to punish the strikers'. While keeping out of the immediate battle Ministers will need to take positive steps to ensure that misrepresentations are halted before they gather momentum. Otherwise this enormous demonstration of economic realities, and the associated pain, may be partly wasted. Although premature Ministerial statements need to be avoided, it may be possible for example to ensure that some widely regarded commentators and possibly the CBI keep reminding the public of the fundamental economic realities behind the situation.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Employment, and to Sir Robert Armstrong.

*yours sincerely,*



J R Ibbs

CONFIDENTIAL

ECONOMIC AND FINANCIAL EFFECTS OF BL CLOSURE

Note by Treasury Officials

1. This paper presents broad estimates of the effects on GDP, unemployment and the PSBR which would follow if the threatened strike at BL leads to a decision by the BL Board to close down substantial parts of the business. It is a rapid up-date of the work that was done during discussions of BL's last Corporate Plan (in November and December 1980); in the time available it has not been possible to go much further than up-dating some of the assumptions and re-stating much of the earlier assessment and results. This note has been prepared in consultation with the Departments of Industry and Employment and the Bank of England.

Assumptions

2. The central estimates are based on the assumption that all plants engaged in the current pay negotiations might close early in November: this includes the volume car business (Austin-Morris and Rover-Triumph) and Jaguar, Land Rover and Unipart; in total these plants employ some 80,000 people. These estimates assume that none of these businesses would survive as going concerns, though it makes allowance for half of the Unipart staff being re-employed in some business supplying parts for the existing stock of BL cars and other makes. Leyland Vehicles (the truck and bus business) is assumed to continue in business since its workforce has already settled for 4 per cent (although negotiations are still going on over the detailed terms).

3. The actual outcome could be less or more severe than this. There is little chance of any of the volume car business being salvaged in the event of a major strike (it is not likely that Honda would be willing to take over the Acclaim production nor that the Metro line could be sold at any more than break-up value). But it is conceivable that Jaguar, Land-Rover and Unipart could all survive or be sold as going concerns; in that case the total BL jobs lost would be reduced to around 55,000. However, the main assembly plants at Jaguar and Land Rover did vote for strike action; and even if actual strike action was muted, the likelihood of pickets and occupations might deter potential buyers. On the other hand, the entire BL group could face liquidation - i.e. including the

CONFIDENTIAL

truck and bus business of Leyland Vehicles as well as all car and van production. Leyland Vehicles is in a very shaky financial state and even though it is not involved in the present action the loss of confidence which would result from a wholesale collapse of the rest of BL could bring it down too. In that case job losses at BL as a result of the strike would total about 90,000 (after allowing for the redundancies already planned).

4. The central assumptions differ from those in the previous exercise. The closures are more widespread and take place more quickly without the opportunity for an orderly run-down of production. The previous exercise had assumed that only the Cars Group (including Jaguar but not Land Rover or Unipart) would be closed. This would have followed a Government decision not to fund the Corporate Plan, in contrast to the situation now envisaged where closure is precipitated by a breakdown in industrial relations. Hence the doubts about the saleability of Land Rover etc.

5. The figures set out below do not attempt to capture the total long-term effects on the economy of a closure at BL, nor are the fiscal and monetary effects of closures assessed in any depth. The estimates include provision for net job losses in supplier companies and make assumptions about the speed at which labour might be re-absorbed. But, for example, they do not make any allowance for wider effects on confidence in the economy or in manufacturing industry in particular; on the one hand confidence in the future of the manufacturing sector could be severely shaken, with consequent decisions to reduce capacity further; on the other hand the shock administered by a closure of BL could help employers to negotiate lower wage increases and more productive use of existing labour, hence promoting output through a reduction in inflation. The effect on the exchange rate is indeterminate: the rate will tend to fall as a result of the worsening of the trade balance, but the confidence effects could go either way.

6. This paper does not consider the costs or the effects of any remedial action the Government might decide to take in the face of the increases in unemployment, which will be concentrated in a few areas (mainly in the West Midlands). Those issues have deliberately been left for subsequent discussion in the light of events.

CONFIDENTIAL

Employment Effects

7. The assumed number of job losses at BL were given in paragraph 2 above. To that has to be added the consequential job losses at supplier companies and at other companies likely to be affected by a BL closure. The earlier assumption has been followed that the ratio of net job losses at suppliers to job losses at BL Cars would be one to one (and one-and-a-quarter to one at Leyland Vehicles). Higher figures are sometimes quoted (three to one is one example); but the earlier analysis carried out by the Department of Industry suggested that one to one is at present the best central estimate, though there are arguments for both higher and lower figures. Further work is in hand in the Department of Industry and the Bank of England on a more detailed analysis of the potential effects on individual major suppliers.

8. We have, as last time, assumed that the job losses in supplier companies are phased in over a period of twelve months. The total job losses at BL and its suppliers would then show the following profile.

	By Spring 1982			By Autumn 1982		
	BL	Suppliers	Total	BL	Suppliers	Total
(a) Closure of Cars Group excluding Jaguar.	55	15	70	55	55	110
(b) Closure of Cars Group plus Land Rover and Unipart.	80	20	100	80	80	160
(c) Closure of all BL including Leyland Vehicles	90	25	115	90	95	185

Re-Absorption

9. A major issue is the speed at which these unemployed resources will be re-absorbed as the economy adjusts back to equilibrium. Given the Government's overall macro-economic policy stance as expressed in the MTFs, a closure of BL

should not lead to any permanent change in aggregate national unemployment in the medium to longer term. New opportunities for employment will appear as the effects of the closure work through the markets for both traded and non-traded goods. In a sense, a continuing loss of jobs at BL is probably already implicit in the MTFS, and on this view an immediate closure has its main effect in producing a sharp change in the time-profile of unemployment. The speed of adjustment when seen in this light is primarily an empirical issue, but one on which almost no evidence exists to conclude how markets might react to a shock of this nature.

10. There would certainly be a transitional increase in unemployment until markets had time to adjust. But there is wide range of views about how long this transitional period might last. Arguably, it might be short, since the effects on the labour market - for instance in reducing the pressures for wage increases - might quite soon lead to new employment opportunities. On the other hand a closure of this size is unprecedented and it might take a considerable time for the economy to recover from the shock, especially given the economic climate in which the closures are assumed to take place. Closure implies the loss of over 150,000 jobs concentrated in one industry, in a few areas and over a short time period.

11. In the analysis below we have followed the same assumptions used in the earlier exercise on the cost of a closure of the volume car business of BL: the major assumption is that there would be no net re-absorption for two years, 25 per cent re-absorption in the third year, reaching 50 per cent re-absorption by Autumn 1985. The analysis was not extended beyond that, but the implicit assumption is that full re-absorption would take place fairly rapidly after that.

#### Regional Unemployment

12. The job losses set out in paragraph 8 above will be heavily concentrated in the West Midlands and Oxford, and to a lesser extent in South Wales. Annex 1 sets out some rough estimates for the job losses in each of the main Travel to Work Areas (TTWAs) affected - the estimates for the pattern of job losses among suppliers are inevitably very speculative. The major job losses occur in

CONFIDENTIAL

Birmingham, Coventry and Oxford, equal to 7 per cent, 4 per cent and 7 per cent of the working population respectively; unemployment in the areas in the West Midlands which are affected is already around 16 $\frac{1}{2}$  per cent. Job losses at Oakengates (Telford New Town) would amount to about 4 per cent of the working population on top of a current unemployment rate of 20 per cent. None of these are Assisted Areas and a closure of BL would have major implications for regional policy. Jobs would also be lost in assisted areas of South Wales, principally because of the knock-on effects of a BL closure on BSC production there. There would also be job losses in Lancashire and Scotland if Leyland Vehicles also closed.

Impact on GDP

13. The direct impact on GDP and balance of payments of a BL closure would be a net loss of domestic output, made up of lost exports and additional imports. We assume that total UK demand for cars remains unchanged and that BL's exports of cars are lost to the UK. Replacements for Rover, Triumph, Jaguar and Land Rover would nearly all be imports. The Austin-Morris market might be replaced by domestic manufactures and imports roughly in proportion to their current shares of the UK non-BL market (much of the lost Metro production would for example be taken up by Fiestas imported from Spain). On these assumptions the loss of GDP would be of the order of £1 billion or  $\frac{1}{2}$  per cent.

PSBR Costs of Closure

14. The PSBR costs comprise:

- (a) redundancy payments;
- (b) social security costs and lost income tax and national insurance contributions;
- (c) costs arising from the financing of outstanding BL short-term and medium-term debt, and to repayment of trade creditors.

There would also be savings from:

- (d) receipts from sales of BL assets;
- (e) deletion of existing provisions for Government funding of BL.



Redundancy Payments

15. On the central assumption, 80,000 jobs would be lost at BL. The total would include:

- (a) those participating in the industrial action who thereby forfeit their right to redundancy payments;
- (b) those who take no action, but are ineligible for redundancy payments because they have less than 2 years service;
- (c) those eligible for redundancy payments.

We have assumed that the proportion of the workforce taking industrial action will be the same as the proportion voting to reject the BL management offer in the 16 October show of hands, i.e. two-thirds. Of the remaining one-third about one-tenth will have less than 2 years service. This leaves some 24,000 employees, each of whom will receive the statutory minimum payment estimated to average £1,200 a man. Thus the total cost would be about £30 million, payable during 1981-82. We have made no allowance for additional payments above the statutory minimum since the redundancies would take place quickly and there would be no call to pay them to ensure an orderly run-down of production.

16. Redundancies in supplier firms are also estimated at 80,000, of which about 20,000 would occur in 1981-82 and 60,000 in 1982-83. About 60 per cent of these would be eligible for redundancy payments. The cost to the state Redundancy Fund (which compensates firms for 41 per cent of the costs of statutory redundancy payments) would be about £550 a man, giving a total cost of about £7 million in 1981-82 and about £20 million in 1982-83.

Social Security Benefits, Income Tax and National Insurance

17. The assumptions made about the net increase in unemployment are set out at paragraphs 7 and 8 above; it is assumed that 80 per cent of those losing jobs will register as unemployed. Projected future earnings follow current Government forecasts of earnings movements. It is assumed that income tax will become payable on unemployment benefit and supplementary benefits from April 1982; no other policy changes on taxes or benefits are assumed.

CONFIDENTIAL

18. The benefit calculations are however affected by the eligibility of dismissed workers. It has been assumed that those BL workers who lose their jobs because they were striking will be disqualified from unemployment benefit and personal supplementary benefit. Dependants of these workers would receive supplementary benefit but only after it has been subject to a £12 deduction for assumed union financial support. That is how the law stands and the penalties can last until the claimant gets a new job or until it becomes clear that the reason for the person being unemployed is not his action in going on strike. It is difficult however to predict just how the independent authorities who decide entitlement to benefit would view the BL case. The effect on costs is not large since it has been assumed that many BL workers will find jobs fairly quickly, even though during the first two years this is only by displacing other workers.

19. On this basis the direct effects on the PSBR would be as follows:

	£ million		
	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Public expenditure on unemployment and supplementary benefit.	55	205	220
Cost to PSBR of lost income tax and NIC receipts.	105	380	415

Financing BL Debt

20. The Government is committed by various assurances in the House of Commons to meeting BL's debts. Some creditors would be paid off immediately but the settlement of other debts would be spread by the use of Government guarantees. In total the debts are:

	£ million				
Loan stocks .. .. .	75	-			
Medium-term loans .. .. .	140	-			
Linked short-term loans .. .. .	5	-			
Clearing bank overdrafts .. .. .	285				
Acceptance credits .. .. .	100				
Overseas loans .. .. .	170				
Trade creditors .. .. .	450				
	<hr/>				
	1,225				

(This may be a slight over-estimate of the total since it includes undrawn facilities, but on the other hand it excludes money market lines drawn down.)

CONFIDENTIAL

21. Of these, trade creditors at least would have to be paid off during 1981-82. We have assumed that to avoid over-burdening 1981-82 public expenditure, repayment of clearing bank facilities could be deferred to 1982-83. Overall, the total cost for each year, including servicing of debt, would probably be roughly as follows - though there may be some flexibility in adjusting the profile of repayments.

	£ million
1981-82	450
1982-83	760
1983-84	120

Disposal Proceeds

22. The net proceeds of disposals are not likely to be substantial. Few, if any, elements of BL will be saleable as going concerns, so that receipts from sales of fixed assets will normally reflect scrap or resale value of plant and equipment and factory site value as uncleared land. Proceeds from sales of stock (cars and parts) will reflect the need to offer some discount below current market prices. Proceeds from BL's debtors will also be received. Lastly, net proceeds must be struck after deduction of penalties arising from breaches of contracts (including perhaps those with Honda for the Acclaims and others with Rolls Royce, Perkins etc.).

23. On this basis, the best estimate of receipts is:

	£ million
1981-82	40
1982-83	120 -
1983-84	55
1984-85	30

Government Assistance to BL Already Provided For

24. Existing public expenditure figures include provisions for payments to BL of a further £170 million in 1981-82 and £370 million in 1982-83. In the base case, the only advances that would be made would be to the Leyland Group; these

CONFIDENTIAL

are estimated on the basis of the 1981 Corporate Plan at £20 million in 1981-82 and £50 million in 1982-83. There is, therefore, a reduction in planned public expenditure of £150 million in 1981-82 and £320 million in 1982-83.

Summary

25. The cumulative effect of the above changes is shown in the following table:

	£ million		
	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
<u>Public Expenditure Costs:</u>			
Redundancy payment costs	35	20	0
Benefit payment costs	55	205	220
Cost of financing BL debt	450	760	120
(less) Net asset realisation	( 40 )	( 120 )	( 55 )
(less) Savings on advances to BL	(150)	( 320 )	( 0 )
	<hr/>		
TOTAL	350	545	285
	<hr/>		
<u>PSBR Direct Cost</u>			
Lost Tax/NI Revenue	150	380	415
	<hr/>		
TOTAL	500	925	700
	<hr/> <hr/>		

IA(2) Division  
23 October 1981

*cc A. Walters  
A. Duquid*

PRIME MINISTER

BL/HONDA COLLABORATION

When we decided to give BL more money last January, Sir Michael Edwardes sent Keith Joseph the enclosed confidential letter agreeing to clear in advance with the Government any proposed collaborative arrangements that were sufficiently comprehensive to preclude other collaborative arrangements being reached.

2 Sir Michael has now sent the enclosed letter seeking agreement for BL to sign a letter of intent with Honda, which would commit BL to a feasibility study on a proposal to design and develop an executive car, code named the XX, to replace the Rover in 1985. Signing the letter does not commit BL to enter into any legal agreement with Honda but BL will need to announce (probably in December) that a letter of intent has been signed which would at least signal BL's and Honda's intentions to the rest of the industry. Sir Michael thinks - and I agree - that setting up the feasibility study falls within the scope of the collaborative arrangements mentioned in his January letter.

3 The XX would be produced in different "BL" and "Honda" versions, which would have the same basic design but different appearances. BL would produce both versions for sale through both companies' dealer networks in Europe and Honda would produce both versions for sale in Japan. Unlike the Acclaim, much of the XX would be designed by BL.

4 The XX would replace BL's own planned Rover replacement, the LM14/15, which was to be based on the LC10 range. BL intend that it should have a substantial degree of commonality with the rest of the LC10 range and that it should be accommodated within the financial provisions already made for the LM14/15. The proposal is consistent in product strategy terms with the Corporate Plan we approved last year.

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



5 Our general objective is to extricate the Government from BL as quickly and completely as possible. In present world car market conditions there is no likelihood whatever of anybody buying BL, or even the BL volume cars operation, outright. The most hopeful way of attaining our objective seems to be to secure a progressive collaboration which initially helps BL towards viability and financial independence from the Government and which holds out a prospect, if not a certainty, of moving on to more wide ranging collaboration and a permanent solution.

Collaboration with Honda has already started with the Acclaim which was launched this month and can now move on to the XX project. BL is also having separate (less advanced) talks with Honda on joint marketing and on collaboration on major components. The question has been raised, though not yet pursued in detail, of Honda's taking an equity stake in the BL Cars group. I do not think it would be fruitful to press this idea at the present stage but the fact that the idea has been raised indicates the possible eventual scope of collaboration with Honda.

6 I am satisfied that the XX project, and the possible further extension of collaboration with Honda, will not adversely affect the prospects of selling shares in Land Rover, Unipart, or even eventually Jaguar and parts of the commercial vehicles operations. Nor would it preclude piecemeal engineering collaboration between BL and other companies: BL are (with Honda's knowledge) engaged in talks with Volkswagen about the development of a new small engine for the late 1980s.

7 Sir Michael's January letter stressed the need for the Government to reply quickly about proposals for collaboration. It would be tempting to argue in the present case that we should delay approval until we have considered the forthcoming updating of the main Corporate Plan and that we should wait until the strike position is clarified. But I think that to do so would be wrong. The Cars Group (apart from the present pay dispute)

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



is generally on course and I do not expect major problems on that score. Honda are pressing for an early response for operational reasons of their own and there is a serious risk that collaboration might lose momentum if there was any sign of hesitancy on our part. Moreover, we ourselves put great pressure on BL to seek early comprehensive collaborative arrangements with another company.

8 I therefore strongly recommend that we should approve the outline of the collaboration with Honda on the XX as soon as possible. I have undertaken to let Sir Michael have a response on this by 2 November. Our approval would of course necessarily be dependent on a satisfactory outcome of the present pay dispute.

9 I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Robert Armstrong and Mr Robin Ibbs.

PJ

P J

23 October 1981

Department of Industry  
Ashdown House  
123 Victoria Street

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

*copies. ✓ Mrs P. G.*

*✓ Mrs. Seddon is recommending to the Prime Minister she calls a meeting re chairmanship next week. (PV)*

*Pl. copy Mrs CONFIDENTIAL  
Lwell submission, plus  
The 14 23 Oct paper on  
"Economic + Financial Effects"*

CHANCELLOR

*Personal to Mr Seddon, cc Chief Secretary  
with my compl.*

*§ 11 shows why  
a meeting is needed  
~~with~~*

*J.P.L. 26/k*

- Financial Secretary
- Minister of State (C)
- Minister of State (L)
- Sir D Wass
- Sir A Rawlinson
- Sir K Couzens
- Mr Ryrie
- Mr Burns
- Mr Quinlan
- Mr Middleton
- Mr P Dixon
- Mr Kemp
- Mr Bridgeman
- Mr Kitcatt
- Mr Burgner
- Mr Christie
- Mr Chivers
- Mr Buckley
- Mrs Gilmore
- Mr Todd
- Mr Allan
- Mr Ridley
- Mr D Walker - Bank of England

BL: COSTS OF CLOSURE

The following paper was prepared by an inter-departmental Working Party (Departments of Industry and of Employment) under the Chairmanship of Mr Allan of IA2. It provides a brief updated version of the longer report on closure costs prepared last year. Further work is in hand. This cover note discusses some aspects of the closure estimates and comments on the implications of Sir Michael Edwardes' tactics.



The Closure Costs

2. Much depends on the extent of the closures. If allowance is made for the assumed effect on suppliers the number of job losses could range from 110,000 to 185,000. The net effect on unemployment is more difficult to judge:

- Some of the unemployed may not register (20 per cent is assumed in the report)
- Some BL workers may find alternative work. But this is likely to be through displacing other less skilled workers, although vacancies for some particular kind of skills may be filled.
- In time the effect of BL closures could lead to increased job opportunities elsewhere. However in the current state of the UK economy it is difficult to believe this will happen other than over a long time period.

3. The impact on the component industry will be further examined next week when more data is promised. The one-for-one relationship assumed for job losses is based on past experience, but could be an understatement given the size of the closures. Suppliers only partially dependent on BL may find the loss of economies of scale makes them uncompetitive against foreign suppliers for example. Rolls Royce would lose its present source for body shells. There may be specific repercussions of this kind which we are not able to foresee.

4. The effect on Government finances is serious. Allowing for higher unemployment pay, loss of tax and national insurance revenue, and providing sums to meet Government guarantees on BL borrowing, the PSBR cost is estimated to be £m500 in 1981-82 and £m900 in 1982-83.

CONFIDENTIAL

5. The Group was not able to assess how far these effects will change the short term forecast. Given the aggregated character of the forecasts it is arguable that some of the rise in unemployment is reflected within the aggregates. But essentially what is needed is a new forecast incorporating the Working Group's assumption on the BL closure. In a simulation carried out a year ago along these lines most of the estimated effects of the closures were in fact additional to the forecasts which had previously been compiled without a BL closure assumption.

6. A major caveat which overhangs the assessment is that there is no previous experience of a closure of this kind, concentrated on a relatively small but strategic sector of industry and confined geographically to a few areas. The blow to business and financial confidence could be significantly more pervasive than has been assumed. Moreover the circumstances of closure are different to those which formed the basis of the 1980 exercise. The exercise last year was based on the result of the Government refusing to endorse the Corporate Plan. The rundown of BL was intended to be an orderly process of disposal in which the possibility of finding purchasers for part of the Group might have been explored over a reasonable period of time. The sudden death scenario envisaged by Sir M Edwardes may rule out this possibility.

Sir M Edwardes' scenario

7. There have been a number of notes from the Secretary of State for Industry - in particular his report to the Prime Minister of 16 October and a further report, following his meeting with Sir M Edwardes on 21 October. We have also had the benefit of detailed discussions about the situation with Department of Industry officials.

CONFIDENTIAL

8. The envisaged scenario is clear up to a point, but then becomes a little murky. The BL Board meet on 28 October. BL employees will be sent a letter warning them that if they do not turn up for work on Monday, 2 November they would be deemed to repudiated their contracts of employment. On Wednesday, 4 November letters to those on strike will be sent confirming they are sacked. Workers so sacked will not be eligible for redundancy pay. This is the legal position. But once sacked they cannot be taken back. To take one back would mean having to take all, otherwise BL would be open to a charge of discrimination.

9. On the face of it therefore once the second letter is despatched BL can no longer trade, and the company would go into liquidation. It appears to follow therefore that the despatch of the second letter makes closure irrevocable and the only option open to BL is to sell what assets it can. Sir Michael's view is that the volume car factories at Longbridge and Cowley would close. It may be possible to find buyers for Land Rover, Jaguar and Unipart. Leyland Group may not join the strike, and it may be possible to keep the company going, although on the basis of the tough Corporate Plan which has yet to be presented to Ministers.

10. In practice however I wonder whether the second stage will present itself as clearly as the scenario appears to assume. Some of Sir M Edwardes' comments appear to imply uncertainty of this kind. His letter to the Secretary of State on 20 October, for example, says that the strike and dismissal of workers would "cause a major loss of confidence on the part of the company's bankers and other creditors", but then goes on to say "whether or not it proves possible to save the bulk of the business subsequently". It is not at all clear to me how Sir M Edwardes envisages what means would be available to keep the company going in the circumstances assumed. All kinds of combinations of possibilities might arise. Suppose Cowley strikes but Longbridge goes back to work? Suppose only a proportion of the workforce go on strike? Suppose there is a drift back to work by the later half of the week?

CONFIDENTIAL

General Comments

11. Sir Michael is following a high risk policy which through misjudgement or sheer obstinacy on the part of the unions could lead to disaster. A particular worrying feature of the scenario is that if the strike goes ahead and the dismissal letters are sent there appears then to be no provision in the contingency planning for attempting to retrieve the situation. At that point it seems Sir M Edwardes and his Board throw in their hands apart from trying to ensure as orderly as possible rundown in the difficult situation they have created. Yet given the enormous and pervasive effects on the UK economy and on the Government financial prospect implied by the scenario I would have thought that the dismissal notices might have been deferred at least long enough to allow both sides to move back from the brink. While Sir Michael's objective to avoid a long strike is understandable to commit himself to putting the company into liquidation in three days must significantly increase the risk that the strategy will fail. Moreover, at this point of time, there appears to be no provision in the scenario for Ministers collectively to consider the implications, which apart from the economic and financial effects, must also be political.

AHJ

A.H. LOVELL - IA

23 October 1981

## JOB LOSSES AND UNEMPLOYMENT IMPACT

A GB unemployment, Oct 1981 (provisional) 2,988,644 (12.2)  
 Average of all IAs, Sept 1981 (post-1982 boundaries) - 14.0  
 Average of all DAs, Sept 1981 (post-1982 boundaries) - 15.7  
 Average of all SDAs, Sept 1981 (post-1981 boundaries) - 17.7

B Outside Assisted Areas

TTWA Working Population	Unemployment Rate (Oct Prov)	AA Status (Aug 1980)	BL Job Losses	Identified Supplier Job Losses (as at November 1980)	Oct 1981 (Prov) Unemployment Level & Potential Level of Unemployment arising From Cols 3 and 4
Birmingham (699,000)	16.6	-	38,680	20,300	23.3
Coventry (242,000)	16.3	-	10,360	1,800	20.3
Oxford (177,000)	8.6	-	14,400	1,300	15.6
Wolverhampton (146,000)	17.0	-	-	7,000	20.8
Swindon (83,000)	10.6	-	3,420	-	13.9
Oakengates (60,000)	19.5	-	-	3,000	23.5
Dudley/Sandwell (304,501)	15.3	-	1,295	-	15.7
Luton (134,374)	11.7	-	260	-	11.9
ASSISTED AREAS					
Newport (90,000)	15.0	DA	-	4,200	18.8
Llanelli (37,000)	18.4	IA	3,290	-	25.6
Port Talbot (81,000)	15.5	SDA	-	1,100	16.6
Swansea (108,000)	15.7	IA	-	900	16.4
Durham (69,000)	13.6	DA	-	1,200	15.1
Kilmarnock (36,000)	17.8	SDA	-	1,800	21.7

TTWA Working Population	Unemployment Rate (Oct Prov)	AA Status (August 1980)	BL Job Losses	Identified Supplier Job Losses (as at November 1980)	Oct 1981 (Prov) Unemployment Level & Potential Level of Unemployment arising From Cols 3 and 4
Leeds (347,000)	11.6	IA	500	-	11.7
Bargoed (25,999)	20.7	SDA	830	-	23.3
Liverpool (476,791)	18.8	SDA	960	-	18.9

#### ASSUMPTIONS

- 1 80% of those made redundant will register as unemployed.
- 2 BL job losses assumes the closure of BL cars bargaining group as defined in the 1981 Corporate Plan.
- 3 Supplier job losses are based on the position at November 1980 and on the distribution assumed in the Second Report adjusted pro-rata to maintain a 1.1 ratio with BL job losses.
- 4 Those losing jobs are assumed to live in the TTW area in which the redundancy occurs.

126 OCT 11 1981



Prime Minister

23 October 1981

①

MR SCHOLLAR

Content for BL to  
proceed with Honda

cc Mr Hoskyns

BL/HONDA COLLABORATION

collaboration, as proposed?

Ms 23/10

Yes not

The proposal put forward by Mr Jenkin today closely accords with views expressed by the CPRS and ourselves earlier this year that the only possible future for BL (other than collapse) is in collaboration with other companies. At the moment, Honda seems to offer much the best chance for collaboration; it is the only hopeful aspect of the BL scene. I therefore see no reason to discourage BL from proceeding, especially in view of Patrick Jenkin's assurance in paragraph 6.



ANDREW DUGUID



DEPARTMENT OF <sup>Ms. 22/10</sup> INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

22 October 1981

Rt Hon Francis Pym MP  
Lord President of the Council  
Privy Council Office  
Whitehall  
London SW1

*Dear Lord President*

BL:DISPUTE

It occurred to me that it might be useful for colleagues to have an agreed line to take on the BL dispute over the next few difficult days.

2 I attach a form of words which I shall myself be using. I think it particularly important that Ministers should emphasise their commitment to the success of BL, as demonstrated by the degree of support they have shown over recent years; to stress that the handling of the dispute has been left entirely to BL; but to avoid too categorical statements to the effect that the Government stands wholly behind BL in the style and content of its handling of the dispute, since to do so will complicate BL's own position. It is essential that BL should be seen to be handling this on its own and to avoid the implication that the Government is breathing down its neck. There is a considerable risk, to BL as well as to the Government, from repetition of the Government's support for BL (though that is, of course, unequivocally the position). The attached form of words is carefully drawn to avoid this danger.

3 I should emphasise that I would hope these notes will be used defensively and that Ministers should not volunteer statements on the BL situation.

4 I am copying this to all Cabinet colleagues and to the Paymaster General and the Chief Whip. I hope they will draw this to the attention of their junior ministerial colleagues.

*Yours sincerely*

*Jan Sleisan*

*Je* PATRICK JENKIN  
(approved by the Secretary  
of State and signed in his  
absence)





BL: DISPUTE

SUGGESTED DEFENSIVE LINE FOR USE BY MINISTERS

The Government ~~have~~ consistently and whole heartedly backed the BL recovery plan. We want BL to succeed, and we have made that abundantly clear by the huge sums we have invested in BL in the past and the £990m committed for 1981/82 and 1982/83.

As to the present dispute, the Government ~~have~~ not in any way sought to influence the Board of the BL in its handling of the matter. *[and does not propose to do so]*

Department of Industry

22 October 1981



PRIME MINISTER

BL: GUARANTEES

Yes <sup>no</sup>

Prime Minister

①

cc Mr Walton  
Mr Dwyer  
Mr Venner

Issuing these guarantees would

not increase our exposure (we are already  
fully exposed by existing assurances).Agree to their issuance? (Treasury  
is in agreement with Mr Venner's proposal).

MUS 23/10

I attach a copy of a letter of 20 October which I have received from Sir Michael Edwardes in which he advises me that, if BL are faced with a widespread and damaging strike on 2 November, the company will need Government guarantees (totalling £830m) to be provided to their lenders on that date.

2 Sir Michael made a request for guarantees in similar circumstances last November and my predecessor consulted you and other colleagues about this in his minute of 6 November 1980. The Government's conclusion was that the issue of guarantees would be necessary to prevent a run on BL and to allow the Board to remain in charge for the rundown of the business; the alternative of allowing a compulsory creditors' liquidation would not only have precipitated a completely uncontrolled reaction by creditors of BL but could also have resulted in an even higher and earlier cost to the PSBR. Your agreement to the issuing of guarantees was conveyed in a letter from your Private Secretary of 7 November, though in the event they were not needed as the threatened strike did not materialise.

3 As you will see from the letter of 12 October to the union leaders referred to in Sir Michael's letter to me, the



circumstances which BL now face, although not of course identical to those applying last November, are in all material respects the same. His present letter gives us advance notice of a possible need for guarantees. He says that after the BL Board's meeting on 27 October he will write again formally requesting guarantees subject to final confirmation on 2 November. I shall then have to give him a formal reply. However, in order that his contingency planning can proceed smoothly, I should like, if you agree, to tell him as soon as possible that the Government concurs in what he proposes.

4 I am copying this minute to the Chancellor, the Secretary of State for Trade, the Secretary of State for Employment and to Sir Robert Armstrong and Mr Robin Ibbs.

PJ

P J  
22 October 1981

Department of Industry  
123 Victoria Street



Prime Minister

(2)

Mrs 21/10

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

✓ J. Vereker  
A. Duquid  
A. Walters

PRIME MINISTER

ms

## BL DISPUTE

Sir Michael Edwardes reported to me on 19 October on the industrial relations situation in BL.

2 On the threatened strike, Sir Michael said it was unlikely that BL would attempt a ballot. He is proposing to say nothing at all this week, although he will attempt privately to influence editors and will respond to any approach from Messrs Duffy and Kitson. In the week beginning 26 October he would aim to make one major exposition of BL's position, perhaps by an extended interview on television. He would write to all employees (on about 28 October) with a final warning that those not reporting for work on 2 November would be dismissed. Those not reporting would then be sent a letter of dismissal, probably on Tuesday 3 November. Up to Wednesday or Thursday of that week, BL would still be able to respond to a major climbdown by the unions or workforce; thereafter the process of dissolution would be irrevocable.

3 BL would attempt to keep open any plants where sufficient workers reported for duty. If a large number at any plant

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

remained on strike, however, it would be necessary irrevocably to close that plant. Longbridge and Cowley would probably be among the first to be closed. The Board would attempt to keep going the Leyland Group (which has accepted a 4% pay offer). It might be possible to keep Land Rover and Jaguar operating, or to sell them to new owners. It was most unlikely that the volume cars business could be sold, given the extent of over-capacity in the industry. The effect of a major strike would, therefore, be the permanent closure of the greater part of BL.

4 Sir Michael remains willing to respond to an approach from the unions for further talks, as long as there are not strings attached. He told me that the unions broke off negotiations before the full negotiating procedure had been exhausted and before BL had made an offer on the incentive scheme, on which certain adjustments - costing very little - had been authorised by the BL Board. He will not, however, volunteer any discussions at this stage, in case this should be interpreted as a sign of weakness.

5 Sir Michael accepts that the terms of his undertakings to us in January oblige him to withdraw the Corporate Plan in the event of a major strike; that he cannot recommend a revised Corporate Plan unless it offers a prospect of recovery; and that in any case he cannot seek extra Government money for BL. He considers that once a major strike starts, it will be impossible for the

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

company to become viable again and that the sooner the logic is carried through to effective liquidation, the better. Sir Michael considers that the decision whether and when to proceed to irrevocable closure now lies with him and with the BL Board.

6 The consequences of closure are grave. My officials are working with BL and with the Treasury, Department of Employment and Bank of England officials to bring existing contingency plans to a high state of readiness. I intend to keep in close touch with Sir Michael and I plan to meet him again, probably on 26 or 27 October.

7 Sir Michael has asked that Ministers should avoid all public comment on the detailed implications of the threatened strike and on the extent of consultation between BL and the Government. I entirely agree. Our line should be that these matters are for the BL Board to handle within the broad framework of its relationship with the Government and the published understandings about the circumstances in which BL would withdraw its Plan. It is essential to avoid comments which would lead to a politicisation of the strike.

8 The BL Board have decided that they can recommend the continued operation of the Leyland Group (ie BL's bus and truck operations) only on a reduced scale. It is therefore possible that in the course of the next week or so Sir Michael will need to say something in public about substantial redundancies in the

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Leyland Group, both at Bathgate in Scotland and at Leyland in Lancashire. Sir Michael accepts that we have yet to consider this proposal, but considers that it may be necessary for him to mention the Board's decision, either privately to Duffy and Kitson or possibly publicly. As early remedial action in the Leyland Group is necessary, I do not think it right to dissuade Sir Michael from this course of action, although it may have consequences for our own consideration of the Leyland Group proposals.

9 I am sending copies of this minute to the Chancellor, the Secretary of State for Employment and to Sir Robert Armstrong and Robin Ibbs.

PJ

P J

Department of Industry  
Ashdown House  
123 Victoria Street

21 October 1981

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

TELEPHONE  
01-486 8000

RECEIVED 35-38 PORTMAN SQUARE  
OFFICE FOR  
INDUSTRIES OFFICE LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

131 Y 20 20th October 1981  
15:57

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

CONFIDENTIAL

*New Secretary of State*

TO Mr. Bowden	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	PS/NL PS/JU PS/Sec
PLEASE BY:	Mr. Haughey Mr. Howelfield
ASAP	

BL CARS STRIKE: CONTINGENCY PLANS

Further to our meeting yesterday, there is one aspect of our contingency planning on which I need to write to you formally, so that the procedures agreed between BL and Government in 1980 to deal with a major closure or liquidation can - if necessary - be activated.

As you know, the BL Board's primary objective is to save the whole of BL by persuading our employees that it is in their interests to stay at work. However, if we do not succeed and are faced with a widespread and damaging strike, it is our firm intention to carry through the actions set out in my letter of 12th October to the trade union leaders - i.e. to dismiss the strikers and liquidate the assets of those parts of the business which are on strike or prevented from working. It is my understanding from our discussions that you are fully in support of the Board's position.

Clearly we cannot forecast precisely in advance the situation which will confront us on 2nd November - unless, of course, there is an agreed settlement before the strike notice takes effect. But there is no doubt that, in the light of the Board's declared intention to dismiss strikers rather than withstand a lengthy stoppage, any substantial withdrawal of labour will cause a major loss of confidence on the part of the company's bankers and other creditors - whether or not it proves possible to save the bulk of the business subsequently.

Continued



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

20th October 1981

2.

For this reason, there are long-standing contingency arrangements for Government guarantees to be made available at short notice to secure BL's existing borrowings and short-term facilities. This action might be accompanied if necessary by reaffirmation of Government assurances to our other creditors and by a statement indemnifying the Board against liability for any trading in contravention of section 332 of the Companies Act. I must emphasise that these measures would be required, not to continue the business indefinitely against a strike, but to provide time to implement the closure/disposal of the relevant parts of the business in the most orderly fashion possible - thus helping to minimise the immediate financial consequences for the Government.

I am therefore giving you notice that, in the circumstances outlined above, we may need Government guarantees to be provided to our lenders on 2nd November. Your officials have been supplied with a list of the borrowings and facilities which may require guarantees. In addition, BL staff are in touch with your officials about the steps which might be needed to reassure other creditors and secure the position of the Board.

After our Board meeting on 27th October, I shall, if necessary, request these guarantees formally on behalf of the Board, subject, of course, to final confirmation on 2nd November. In the meantime, BL staff will, of course, be available to assist your Department with any information needed to set in hand these arrangements.

Yours Sincerely,  
Michael Pinnow.

TELEPHONE  
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDS

12th October 1981

MEMORANDUM

Mr. T. Duffy  
President, AUEW

Mr. A. Kitson  
Acting General Secretary, TGWU

copy: The Rt.Hon. Lionel Murray, OBE,  
General Secretary, TUC

I am copying this memorandum to the General Secretary of the TUC because - although most of our employees are represented by the TGWU and AUEW - there are other unions involved.

The BL Board meets on Wednesday 14th October to consider the 1982 Corporate Plan, covering the major investment on LC10 and the funding of the next five years. On Friday, 16th October the various unions in BL will be holding mass meetings to recommend an all-out strike (on the wage offer) which embraces the Cars Group, Unipart and Land Rover, effective 1st November. Although Leyland is not involved - the wage offer having already been accepted by a mass meeting at Leyland Lancs - a major strike would impact on its future, too.

Following discussions with my fellow directors, we feel it only right and proper to let you know the course of action which the Board would take in the event of a strike call being widely supported or effective. As mass meetings have been called for Friday in all our car plants, knowledge of the following facts may enable you to intervene, and impact favourably upon the jobs of over 100,000 people in BL, plus the many others who depend indirectly upon BL for their jobs.

Continued

Mr. T. Duffy  
Mr. A. Kitson

cc The Rt. Hon. Lionel Murray, OBE.

12th October 1981

2.

These are not new jobs that need to be created - they are factories already in existence which employ people now.

The facts are as follows:-

1. Your colleagues have claimed a £20 per week increase and other substantial benefit improvements.
2. It has been argued that Cars employees have accepted low figure wage settlements for the past three years and that we should invest in people as well as new plant and products. All that is true but there have also been substantial parity payments to most plants and in the past year there have been very reasonable earnings through the productivity bonus scheme. In the period since 1st November 1980, average 40-hour earnings of the hourly-rated workforce have gone up by more than 13%.
3. We cannot afford to increase our unit labour costs, for we will lose hundreds of millions this year as it is. Nevertheless, BL Cars has stretched itself to offer grade rate increases of between £3 and £4 per week, and has declared its intention to do everything it can to ensure that employees increase their bonus earnings.
4. Even if our unit costs were competitive, which they are not, our financial situation this year would preclude our meeting the claim. In no circumstances can we use funds earmarked for our new product programme to pay wage increases unless, of course, they are funded from production performance.

Continued

Mr. T. Duffy  
Mr. A. Kitson

cc The Rt. Hon. Lionel Murray, OBE.

12th October 1981

3.

5. To stand a widespread strike from 1st November is not a viable option because:-

5.1 We are not prepared to recommend the Plan and its funding implications to Government without the support of our workforce. Indeed the Board's position in the event of a major strike is already on public record in my letter of 26th January 1981 to the Secretary of State for Industry; "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 appears 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."

5.2 We cannot stand a widespread damaging strike for even a few days, without prejudice to our investment programme - quite apart from the damage to us in the market place.

The Plan does indicate light at the end of the tunnel but it will surprise no-one who follows our fortunes to know that our cash flow is too fragile to survive the implication of heavy additional and unbudgetted costs.

Continued

Mr. T. Duffy  
Mr. A. Kitson

cc The Rt.Hon. Lionel Murray, OBE

12th October 1981

4.

6. It follows that, if the Board judges at its further meeting on 28th October that there is widespread support for effective and financially damaging strike action it would have no alternative but to decide not to proceed with our 1982 Plan, which is due to be submitted to the Government at the end of October. If such a strike materialises, we will have no option but to:-

- 6.1 hold those on strike to be in breach of their employment contracts - their employment would subsequently be terminated and in these circumstances they would not be entitled to any redundancy payments or payment in lieu of notice; and
- 6.2 consult the Government on the steps which would be needed to liquidate those parts of the business within the Cars bargaining unit which are on strike or prevented from working. We doubt whether the Leyland truck and bus operations could be isolated from the chaos that would ensue.

The Board intends to give these facts to all affected employees on Wednesday 14th October to outline the inevitability of events following widespread strike action. These facts would, of course, have to be made public at about the same time. We will not publish the facts or this letter until that time.

Continued

Mr. T. Duffy  
Mr. A. Kitson

cc The Rt.Hon. Lionel Murray, OBE

12th October 1981

5.

If you are successful in any intervention, I will then recommend to my Board that we should pursue the recovery plan, with the heavy investment required to complete the product-led recovery that has begun with Metro and Acclaim. I cannot be sure that the Board will feel able to back it, but positive support from the workforce would obviously be an important factor. On the other hand we cannot face yet another crisis with weeks of uncertainty.

Please accept that we write in these terms only because in all conscience we feel we must - it would be quite wrong in our view to have our workforce vote on Friday 16th on such a fundamental issue, without their knowing the full facts and the full implications.

If you require any elaboration, please let me know.

Yours sincerely,  
Michael J. ...

2/10  
BL

DTP will revise



wh  
also

10 DOWNING STREET

① ~~JV~~

1 gene: otherwise

this is fine for

② ~~MS~~ WR.

2/10

I would leave  
out the bit in square  
brackets.

If it must go in,  
I would also put  
in the suggested insertion:  
"consistent ....."

WJ.

21/10

From the Private Secretary



Civil Service Department  
Whitehall London SW1A 2AZ  
Telephone 01-273 4400

Chancellor of the Duchy of Lancaster

20 October 1981

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

Dear Mike,

I attach a draft reply to the letter of 3 October from Geraint Morgan MP to the Prime Minister about the increases in salary awarded to the chairman of British Leyland and the chairman of British Rail. I am sorry this has not met your deadline but we have only this morning received the contributions we needed.

The increases given to Sir Michael Edwards<sup>e</sup> was decided by the BL Board before BL became the direct responsibility of the Secretary of State for Industry. Ministers are currently considering whether BL board salaries should in future be controlled by the Government.

In the case of Sir Peter Parker, the Secretary of State for Transport was particularly keen to retain his services for a number of reasons, not least the need for continuity in policy when the provisions for privatising the main subsidiaries of the British Railways Board, included in the Transport Act, are implemented.

The Department of Transport and the Department of Industry have been consulted about the draft reply and I am copying this to Ian Ellison (Industry) and Anthony Mayer (Transport).

Yours sincerely,  
Jim Buckley.

J BUCKLEY



DRAFT LETTER FROM THE PRIME MINISTER TO GERAIN T MORGAN QC MP

Thank you for your letter of 3 October about the salaries of Board Chairmen.

I recognise your concern, and indeed that of other people, at the different levels of pay increase for some board chairmen, when compared to those of most employees, and I would like to take this opportunity to explain the Government's policy on pay, particularly in the nationalized industries.

The Government believe that a decline in the level of pay increases is essential to the economic recovery of the country, and that is why in drawing up its public expenditure plans for 1982-83 the Government has taken a figure of 4% as the general factor for the rise in earnings in the coming year. But this does not imply a rigid and inflexible incomes policy. You will recall that in reply to a PQ by Bill Walker MP on 7 April about the new arrangements for settling the pay of nationalised industry board members that the need to recruit and retain able enough people would be among the factors taken into account. The nationalised industries need to be run by people of high calibre and it is inevitable that market considerations should play a part in determining the level of their salaries. Nevertheless I can assure you that the general level of increases for board members that we have agreed to this year has been modest.

Of the two individuals you mention specifically, Sir Michael Edwardes' salary increases earlier this year was decided by the board of BL, not the Government. BL is <sup>a Company like company,</sup> not a nationalised industry. ~~but a Company like company,~~ and we are currently considering whether it would be <sup>consistent with our <sup>with</sup> decision to return BL to the private sector</sup> appropriate for Ministers to determine the salaries of its Chairman and board members in future.] The circumstances of Sir Peter Parker's increase of salary were different. We were negotiating a new contract and the Government considered his new salary should reflect his value in running a major industry. You will appreciate that if we are to overcome the undoubted problems of our railway services then we must secure good management to tackle the task.

## Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has 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.

Reference: CC(81) 33rd Conclusions, Minute 2

Date: 20 October 1981

Signed AWayland Date 18 May 2011

**PREM Records Team**

**CONFIDENTIAL**

R H

hd P57

19 October, 1981

B L Pay Dispute

Many thanks for your note about the B L Pay Dispute which was enclosed in your letter to me of 16 October.

The Prime Minister has seen and noted this report.

I am copying this letter to the Private Secretaries to the Chancellor and the Secretary of State for Employment.

MICHAEL SCHOLAR

CS

Mrs C Bell  
Department of Industry

**CONFIDENTIAL**



CONFIDENTIAL

✓ Mr Duguid  
 Mr Walker  
 Mr Vercher

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

16 October 1981

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

Prime Minister

We thought you would  
 like an up-to-date report.

MUS 16/10

MS

Dear Michael

BL PAY DISPUTE

... As requested this morning, I enclose a note for the Prime Minister about the BL pay dispute. The Secretary of State for Industry is seeing Sir Michael Edwardes on 19 October and a further report will be sent to you thereafter, if appropriate.

I am copying this letter and the enclosures to the Private Secretaries to the Chancellor and the Secretary of State for Employment.

Yours sincerely  
 Catherine Bell

CATHERINE BELL  
 Private Secretary

CONFIDENTIAL



CONFIDENTIAL

BL: PAY DISPUTE

*plants employing*  
The latest news from BL is that voting by a show of hands at mass meetings at car plants today was (provisionally) *plants employing* 39,000 in favour of a strike on 1 November and 19,000 against. About 7,000 employees did not attend the mass meetings. Again provisionally, 14 plants voted in favour of a strike and 18 against. However, those in favour of a strike included Longbridge and Cowley while those against included a number of BL's smaller plants. The Land Rover and Jaguar assembly plants voted for a strike. The Jaguar engine plant voted against as did Common Lane (van assembly), Dreads Lane (components) and Pressed Steel Fisher at Swindon.

BL are not commenting in public on these results except to say that they stand by the letters issued to their employees earlier this week about the likely consequences if the dispute continues. A copy of the letter is at Annex A to this note.

BL were in a similar situation last October/November, and some contingency planning was done both by the company and the Government. This work is currently being reviewed and further consultations between Department of Industry and Treasury officials, including a joint meeting with BL staff, will take place early next week.

The Secretary of State for Industry will be meeting Sir Michael Edwardes on 19 October, and will ask him for an up-to-date assessment of the situation. At present there is no clear indication of how the dispute will develop, but there are no plans for the BL Board to meet again before 28 October. It is very unlikely, therefore, that decisions will be required of Ministers in the week beginning 19 October.

Department of Industry  
16 October 1981



To all hourly-graded employees in  
BL Cars and Unipart Groups

Annex A

## 1981/82 WAGE NEGOTIATIONS

Earlier today the BL Board considered the 1982 Corporate Plan for the company which includes investment programmes for new models and projects over the next five years and which are vital for BL's continued recovery.

The meeting took place against the background of the strike recommendation which you are being asked to vote on at Plant Meetings on Friday.

The Board carefully considered the situation and agreed the following facts and actions should be communicated to employees:

- The BL Board is not prepared to recommend the Corporate Plan to Government without the support of employees.
- We are in no position to stand a widespread damaging strike for even a few days without affecting the investment programme upon which further recovery depends.
- It follows that if the BL Board considers at its next meeting on 28 October there is widespread support for effective and financially damaging strike action the Board would have no alternative but to decide not to go ahead with the Corporate Plan.

It has been argued that Cars' employees have accepted low figure wage settlements for the past three years and that we should invest in people as well as new plant and products. While this is true, there have also been substantial parity payments to most plants and in the past year there have been increasing levels of earnings through the Productivity Bonus Scheme. In the period since 1 November 1980 average 40-hour earnings of the hourly-rated workforce have gone up by more than 13 per cent.

We cannot afford to increase our unit labour costs. Even if our unit costs were competitive, which they are not, our financial situation this year would preclude our meeting the claim. In no circumstances can we use funds earmarked for our new product programme to pay wage increases; they must be funded from production performance.

BL Cars has stretched itself to offer grade rate increases of between £3 and £4 per week, and has declared its intention to do everything it can to ensure that employees increase their bonus earnings still further.

By agreeing to a realistic pay settlement employees will be contributing to the continued recovery of the company. In these circumstances management would advocate to the BL Board that the heavy investment programme—which has already resulted in new models like Metro and Acclaim—should continue and give BL more new products over the next five years to sustain that recovery.

*continued overleaf*

15

If, however, a widespread and damaging strike does take place the company will have no option but to take the following action:

- Hold those on strike to be in breach of their contracts of employment. Their employment would subsequently be terminated and in these circumstances striking employees would not be entitled to any redundancy payments or payment in lieu of notice.
- The Board would consult the Government on the steps which would be needed to liquidate those parts of the business within the cars' bargaining unit which are on strike or prevented from working.

Because of the extreme seriousness of the situation the Chairman of BL has written to the President of the AUEW, the acting General Secretary of the TGWU and the General Secretary of the TUC explaining the Board's position and inviting them to intervene to avert what could be very grave consequences to the jobs of many thousands of people within BL and in associated industries.

As employees you must be in no doubt that a vote for strike action in support of a pay claim which the company is in no position to meet, will have the effect of placing your jobs and thousands of other people in the components industry in the greatest possible danger. These are the simple facts.



R. Horrocks,  
Chairman, Unipart Group  
Chairman and Chief Executive, Cars Group



TELEPHONE  
01-486 6000

RECEIVED IN  
S.O.S. FOR  
INDUSTRIES OFFICE

35-38 PORTMAN SQUARE  
LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDS 16

09:10

15th October 1981

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

*Miss Bowe*

*Please discuss. B*

TO <i>Mr Bowler</i>	COPIES TO	<i>16</i>
FOR ADVICE (AND	PS/NL	<i>10</i>
DRAFT REPLY IF	PS/JW	
APPROPRIATE)	PS/SEC	
PLEASE BY: URGENT	<i>Mr Hargie</i>	
for inclusion	<i>Mr Howdfield</i>	
in brief for		
19/10/81		

CONFIDENTIAL

*Her Secretary of State.*

BL/HONDA COLLABORATION: JOINT EXECUTIVE CAR

As you know, the success of the Triumph Acclaim project has stimulated further discussions with Honda about future collaboration. While several possible areas of collaboration - including joint marketing in European markets, collaboration on pick-ups and joint powertrain development - have been put on the table during the discussions, there has been mutual agreement that the next stage in the development of the relationship should focus on a joint venture to develop and manufacture an executive car (code-named XX). The XX would, if the joint venture materialised, supersede the LM14/15 development which is currently included in our Cars Group Corporate Plan as a replacement for the Rover from 1985.

Discussions on this venture have now reached a stage when an agreed statement of intent is required to provide the formal basis for the joint development and feasibility studies to continue. The proposed text is attached. We understand that it is acceptable to Honda management, and it will be put to the Honda Board in the near future. The BL Board gave its approval at yesterday's meeting, and in accordance with my private letter of 26th January to your predecessor, the Board now wishes to establish that the Government has no objection to this letter of intent being signed on BL's behalf.

Continued

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

15th October 1981

2.

The letter of intent commits us to detailed discussions on the feasibility of this joint development. It does not imply any commitment to enter into a legal agreement. An investment programme would be required and would be submitted for approval through the normal procedures in due course.

As the detailed studies will involve increasing numbers of people from both companies, the risk of leaks will increase to the extent that both companies judge a joint announcement, probably in December, to be necessary in order to make the position clear. (Indeed there is very considerable media interest in future BL/Honda collaboration, and the commercial sensitivity of this issue requires that both companies should be well prepared to respond to press leaks at any time and should handle the matter with the utmost care.) The announcement, summarising the letter of intent, would similarly involve no formal commitment, but clearly the credibility of both companies would be damaged if we withdrew from the project after it had been made public.

I suggest that in considering this development you should focus not on the detail of the text but on the following points:-

1. Honda have accepted that their relationship with BL should be a partnership of equals. The XX car venture is therefore substantially different from the Acclaim project in that it requires involvement of both companies in design and development as well as manufacture and involves a coordinated sales programme worldwide. We are confident that this joint venture will be viewed in Europe very differently from the Acclaim and indeed from the Nissan project if this goes ahead - particularly as local content is likely to be around 85%.
2. The funding of the project has not yet been discussed in detail, but I can assure you that BL is absolutely committed to limit its contribution to the amounts set aside in the Plan for LM14/15.

Continued

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

15th October 1981

3.

3. Although the possibility of an equity stake for Honda in the UK end of the joint operations has been raised in the discussions, both parties have judged it inappropriate to pursue the possibility at this stage, at least until the shape of an agreement on the executive car project and its funding implications are clear. Assuming that this project continues to develop smoothly, our intention is to discuss equity involvement with Honda in the context of funding the project. I believe strongly that the development of the relationship between the two companies could suffer a serious setback if we were to press this matter prematurely.
4. It is possible that the legal agreement governing the joint venture, when it is negotiated, will prescribe penalties in the event of either company withdrawing from the project. This would be normal in any agreement which involved the dependency of a manufacturer on a supplier for key components.
5. The XX car will preserve the original concept of an executive car based on the LC10 family, thus maintaining the Cars Group Strategy of concentrating on three main model families (Metro, LC10, Jaguar). The principal elements of commonality planned between LM11 and LM14/15 - main and rear floor, rear suspension, powertrain and the key interior package dimensions - are expected to be carried through into the XX car. In addition, aspects of new technology which Honda intend to contribute to the XX car may well be capable of incorporation into LM11. The planned launch timing of 1985 for LM14 will also be achievable for the XX car.

Continued

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

15th October 1981

4.

6. The potential benefits of the deal for the British component industry are substantial, provided, of course, that it can supply competitively. Projected sales volumes for the UK-built XX car are significantly higher than current forecast for LM14/15, and there will, of course, be additional opportunities for supply of components for the Japanese version. The project will also substantially improve the chances of a viable collaborative deal between BL Cars and Perkins for the development of a diesel version of our O-series engine.

I trust that this will provide you with sufficient background to give us rapid clearance to proceed. If you require any elaboration, I shall be happy to cover this at our meeting on 19th October.

I must emphasise that we cannot afford a delay until our Corporate Plan has been approved. Indeed, it is important that we should be able to tell Honda within the next 10 days or so that we are ready to sign the letter of intent - though, of course, this would be subject to events on or before 2nd November working in the company's favour. Not only is an agreed letter essential to enable the two companies to proceed with further studies, which are vital to keep up with the product timing schedule; but a delay could lead to serious loss of momentum in the negotiations and to suspicions from Honda of a lack of commitment on our side. I hope you will agree that we should do nothing to jeopardise this major opportunity.

*Yours sincerely,  
Patrick Jenkin*

Enc:

DRAFT JOINT LETTER OF INTENT  
BY BL LTD AND HONDA MOTOR COMPANY

BL REVISED PROPOSAL

A This letter, which is not intended to form a legally binding commitment on either party, sets out the preliminary conclusions reached at the discussions which have so far taken place on a further collaboration between Honda Motors and BL Cars. As such, it is intended to provide a framework which will assist in highlighting the points of major importance for further detailed discussion.

B It is the intention of Honda and BL to jointly design, develop and produce an executive car family (referred to as XX Car) for sale worldwide.

C This intention recognises the separate identities of the two companies whilst, at the same time, enabling both companies to benefit mutually from the joint programme. In this context the following points are agreed:-

1 The range will be fully competitive in the Executive Car Market Sector, the first priority being given to a four door notchback saloon. Investigations into the feasibility of a 5 door fastback and estate car will follow at a later date.

2 Design Parameters

The companies should aim wherever feasible to meet the following criteria in preparing the specifications and feature levels of the joint car design, which:-

- (a) should meet the executive car requirements of each company and be compatible and complementary to the planned product ranges of the companies. It should, with design differences and other modifications where necessary, meet the legislative and other market requirements of Japan, North America and Europe and selected ROW territories.
- (b) should be styled to incorporate the most advanced technological developments feasible in terms of materials, and body-in-white design and equipment levels compatible with current or potential manufacturing feasibility in each company.

- (c) should achieve an interior package that will satisfy the product requirements in the Executive Sector of all markets while not exceeding the exterior width dimensions required for the Japanese market.
- (d) should accommodate the petrol power trains agreed as necessary for that sector and the largest possible wheel and tyre size commensurate with an acceptable turning circle. The feasibility of diesel power trains as a feature of the project will be investigated.
- (e) should ensure that equipment levels are to the highest possible standard of advanced technology.
- (f) should aim to have suspension design as common for both companies' derivatives of the vehicle.

3 Both Honda and BL recognise and agree the importance of ensuring that the joint car maintains the maximum possible design commonality between the Honda and the BL model, consistent with the achievement of sufficient visual differentiation to ensure the independence of identity between the Honda and BL models. Deviation from basic design commonality should only be used to resolve differences of design opinion where other options have been exhausted.

4 It is agreed that the design and development of the vehicle range will be handled jointly by BL and Honda. Within the overall collaboration, the basis for the division of primary responsibility for particular design areas will be discussed. A development programme will be established along similar lines.

Design philosophy will be agreed between the two companies, together with key points of design, allowing for the maintenance of the separate identities of the two models.

5 Detailed sourcing and marketing arrangements remain to be discussed. At present, it seems likely that an arrangement along the following lines will form the basis for further discussion:-

Honda will produce the car in Japan for sale in Japan through the Honda franchise with the Honda identity, and for sale in Japan through the BL franchise with the BL identity. BL will produce the car in the UK for sale in Europe through the BL franchise with the BL identity, and for sale through the Honda franchise in Europe with the Honda identity.

Sourcing of vehicles for North American sale will be from Japan for Honda versions and from UK for BL versions. If either company wished to consider a

North American factory to supply North American sales of this car, the possibility of sourcing cars of both identities from this factory would be jointly examined.

- 6 The sourcing of each individual component will be examined to see whether sourcing in either Japan or UK for both companies' requirements is preferable or whether independent sourcing to a common design is preferred.

For each component the possible sourcing inside one of the two companies will be given priority. In cases of sourcing from suppliers outside the two companies, the purchasing activities of the two companies will attempt to establish the supplier or suppliers who will provide the most beneficial combination of cost, quality and local content requirements.

- 7 On power train, studies will include use of petrol engines identified by either Company and of the "O" Series diesel engine. It will be the intent of both companies to ensure that the car is capable of accepting these identified engines. Transmission studies will include the possibility of manual and automatic versions of both of these engines. It will be the intention of both companies to reach a common transmission strategy. In the case of use by BL of Honda transmission this will include provision of transmissions with appropriate rotation for existing BL engines. Studies will also include BL manufacture of Honda 5-speed manual gearboxes.
- 8 It is the joint intention across the programme for each company to contribute towards the design and development of the car, so that the car will be (and will be perceived to be) a genuine joint programme.
- 9 A number of important issues remain to be discussed and agreement on these is obviously an essential precondition to entry into a formal collaborative agreement. These issues include the patented content of the car, the supply of spare parts, the development of derivative models, product and manufacturing timing and product liability.
- 10 Both companies recognise the need to take account of applicable regulations in those countries in which the car will be sold.
- 11 It is accepted by both parties that implementation of the proposals set out in this joint letter of intent will depend upon the acceptability of the project to the European Commission.

Both companies will observe complete confidence on all aspects of the programme, except where jointly agreed releases are made at an agreed time.

BL CARS COMMERCIAL  
8.10.81



MR G MORGAN, MP



Chas M

Coming Due on 20/10 MRD

10 DOWNING STREET

5 October 1981

From the Private Secretary

I enclose a copy of a letter to the Prime Minister from Mr. Geraint Morgan, M.P., about the recent salary increases awarded to Sir Michael Edwardes and Sir Peter Parker. I should be grateful if, in consultation with other Departments as necessary, you could let me have a draft reply for the Prime Minister's signature by Monday, 19 October.

I am sending copies of this letter and enclosure to Peter Jenkins (HM Treasury), Ian Ellison (Department of Industry) and Anthony Mayer (Department of Transport).

M. A. PATTISON

J. Buckley, Esq.,  
Office of the Chancellor of the Duchy of Lancaster

5 October 1981

In the absence of the Prime Minister in Melbourne, I am writing to acknowledge your letter of 3 October about salary increases for public sector chairmen. I will place this before the Prime Minister on her return and a reply will be sent to you as soon as possible.

M. A. PATTISON

Geraint Morgan, Esq., Q.C., M.P.

c.16 5110



From GERALD MORGAN Q.C., M.P.

House of Commons,  
LONDON SW1A 0AA.

3rd October, 1981.

R5

Dear Prime Minister,

As you know, I do not trouble you with correspondence unless I consider the issue to be a really important one.

I am writing to you now because I am very concerned indeed by the inevitable effect upon the nation of the extraordinarily generous increases of salary recently accorded to Sir Michael Edwardes, the Chairman of B.L., and Sir Peter Parker, the Chairman of British Rail. The former, I understand, was granted an increase of more than 50% ( from £60,000 to £100,000 p.a. ) and the latter one of 25% ( from £48,000 to £60,000 p.a. ), and both are allowed to hold outside directorships as well. ( I understand that Sir Peter Parker pressed for a salary of no less than £80,000 p.a. Clearly, in the eyes of this former Socialist Parliamentary candidate some are more equal than others!)

How can the Government possibly<sup>8</sup> expect workers earning modest wages meekly to accept infinitely smaller percentage increases, or indeed no increases at all, when they hear of such munificence being shown to the already extremely well paid? It is not as if either of the gentlemen I have mentioned are indispensable or indeed have been even moderately successful at their jobs. On the contrary, the record of British Rail, in particular, in recent years has been abysmal. Our railways are a disgrace, a by-word for unpunctuality, filth and general inefficiency, and are losing money at an astronomical rate, to boot. As far as Sir Peter Parker is concerned, his departure would be something which I for one, in the traditional phrase, could bear with fortitude. I venture to think that, in saying that, I reflect the views of countless thousands of weary railway travellers, not only in North Wales but all over the United Kingdom.

It is nothing to the point that these particular princely salaries may be but a drop in the ocean in terms of gross national expenditure. The psychological, and political, effect of totally exempting the moguls of nationalized industries from the hardships currently suffered

by less privileged mortals could be very serious indeed.

Yours sincerely,  
Geaint Morgan

Mrs.  
Rt. Hon. Margaret Thatcher, M.P.

And Pol



10 DOWNING STREET

note for mem.

Spencer L. Elmir.

(Don), who said that

he could see no

need for a. copy

mtg.

p.a.

R

20/9

CONFIDENTIAL

Prime Minister

COMMERCIAL IN CONFIDENCE

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET

LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676



From the  
Minister of State  
Norman Tebbit MP

*see A. Wallat*  
*A. Duquid*

*und*  
*Pol*

Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
London SW1

12<sup>th</sup> August 1981

*R*  
*M8*

*D George,*

LEYLAND GROUP PLAN

Thank you for your letter of 2 August to Keith Joseph, to which I am replying in his absence.

I can fully appreciate the concern you feel about the effect on the surrounding areas of decisions about the future of the Leyland Group's factories in Scotland. Product decisions, such as those you mention, are very much for the management of BL to take and, much as we may regret the effects of such a decision, it is not part of our policy towards BL to interfere in such detailed matters. On major decisions, however, the effect on the locality is one of the many factors to be considered when such decisions are put to the Government - usually in the context of BL's Corporate Plans, the next one of which we expect in the autumn. As you saw in my letter of 31 July, we did request Michael Edwardes to examine and report in the Corporate Plan on the full range of options for the Leyland Group, so we could understand fully the basis for whatever decision the BL Board had taken. We understand that the BL Board will also be closely examining the future for the Leyland Group in advance of the Corporate Plan. It may be that they will decide then that major action is required on the Leyland Group; any such decision will of course be communicated to the Government and we shall have an opportunity to comment - but it will be a decision by the BL Board, and we shall have to pay due attention to their views.

As usual, your officials will be involved in officials' consideration of the next Corporate Plan, and of the Leyland Group's Scottish operations. As for Ministerial discussions, I can understand your wish to be consulted and involved, and I see that you have copied your letter to the Prime Minister and to Geoffrey Howe, so that they may be aware of your views when Ministerial consideration is next required.

*[Signature]*  
*Norman*

NORMAN TEBBIT

Handwritten initials: "T.M.P." and "15"



Amis Amis

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Handwritten: "Wed Pd"

Handwritten: "A. M. Dymally" with a checkmark

Handwritten: "To note that Mr Younger is strongly opposed to the proposal of the Leyland Group PLC being put back."

Handwritten: "MS" with a slash

Handwritten: "4/7"

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

3 August 1981

FUTURE OF BL: LEYLAND GROUP PLAN

Handwritten: "requested" with a slash

I have seen Norman Tebbit's letter of 31 July to Sir Michael Edwardes confirming that decisions on the Leyland Group Plan will be postponed pending the further review to be undertaken by the BL Board in the Autumn.

You will appreciate my deep concern about the prospects for BL's Scottish operations brought out in the interim Leyland Group Plan and likely to arise in any further review. We are now at a point where any further significant loss of employment in the vehicle industry in Scotland, following the recent closure of Talbot's Linwood factory and given that the Bathgate and Albion plants are located in areas of over 17% male unemployment, would be catastrophic in both employment and political terms. Yet it appears that the decisions not to build the new light panel van at Bathgate, to phase out tractor production, and to go for a joint venture on engines with Cummins/Case, coupled with the decision to buy in ZF gear boxes, will inevitably lead to substantial layoffs: while even more damaging proposals may emerge in further consideration.

Presentationally, I would have great difficulty in justifying action leading to substantial curtailment or complete shutdown of Leyland Group operations in Scotland when so much money has been devoted to maintaining BL Cars' operations in the Midlands which have been far greater and more persistent loss-makers. As recently as 1 May, I met with community representatives and the Joint Shop Stewards' Committee at Bathgate and, on the basis of the strong assertions made by Leyland Group management that there was no question but that Bathgate had an important role in the long-term future of the Group, felt able to express confidence about the continuation of the Bathgate operation. It now appears that that confidence had little foundation.

1891/144

SECRET

In these circumstances, you will understand my wish to be consulted on developments in the position of the Leyland Group and to be involved in all collective Ministerial discussions about the future of BL in the coming months.

I am copying this letter to the Prime Minister, Geoffrey Howe and Jim Prior.

Approved by the Secretary of State  
and signed in his absence



Mr Marshall  
Secretary  
Mr Steele  
Mr Mountfield  
Mr McPetrich  
Mr Whiting  
Miss Bowe  
Miss Spencer  
Mr Bowder -

CONFIDENTIAL

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

*cc A. Daquid*

Minister of State

Norman Tebbit MP

Sir Michael Edwardes  
Chairman  
BL Limited  
35-36 Grosvenor Gardens  
London  
W1H 0BN

*R 95*  
31<sup>st</sup> July 1981

*D Michael,*

*will request if required*

Further to Keith Joseph's letter of 9 June, I am writing to convey the Government's comments on your letter of 28 May seeking the Secretary of State's endorsement of the BL Board's qualified approval of the revised 1981 Plan for the Leyland Group.

In the Government's view, the Plan presented is acceptable only as a short-term operating basis and the 1982 Corporate Plan to be submitted in the autumn should contain the results of a radical review of the alternative courses for the Leyland Group, including a fully-developed study, with operational plans, of:

- a the full range strategy on which the present Plan is based (if BL still wish to pursue this);
- b a narrow-range strategy based on contracting out of less profitable sectors; and
- c closure, with disposal of those parts of the business which can be sold.

I am sure you will appreciate the Government's wish to receive the 1982 Plan for this Group (as indeed those for other Groups) as early as possible this autumn.

I understand it is your intention to let us have the main BL Corporate Plan no later than the middle of November and that if you have already taken a decision before then to close the truck activities you will inform the Government at once of such a decision. My colleagues are particularly anxious that the timescale for consideration of the Plan should be no later than that.



You will recall that we discussed, in connection with the 1981 Corporate Plan, the question of disposals and sales of minority shareholdings in parts of the group, and we identified problems about the timing of this. It would be most helpful if, when you let me have the main BL Corporate Plan, you would send me a statement of how the Board then sees the case for and against disposal of particular parts of the group, in whole or on the basis of minority shareholdings by collaboration or flotation, at different dates.

*Yours truly  
Norman*

NORMAN TEBBIT



file

Ind BK  
CC: JMT PJ  
rec: Robin Ibbot  
Sci Robert  
Armstrong  
Andrew Auguid

10 DOWNING STREET

*From the Private Secretary*

31 July 1981

BL: Future Structure

The Prime Minister has now considered your Secretary of State's minute of 24 July. She believes it would be unwise for Sir Keith to express any view whatsoever on Sir Michael Edwardes' proposals for a new structure for British Leyland until a decision is taken on the future of the Leyland Group in the autumn. She has noted that BL are to be told that the new corporate plan for the Leyland Group should cover fully worked out alternatives including complete closure, a full range plan and a narrower range plan.

I am sending a copy of this letter to John Wiggins (HM Treasury).

I. E. LANKESTER

Ian Ellison, Esq.,  
Department of Industry

GT



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

PRIME MINISTER

*NRSM - to late*

*M 21/17*

BL: FUTURE STRUCTURE

*attached*

As you know, Keith Joseph copied to me his minute of ~~24~~ <sup>24</sup> July covering the letter from Michael Edwardes to him of ~~24~~ <sup>24</sup> June which set out his confidential thinking on the future organisation of BL. Keith and I have discussed this briefly at a meeting at which Robin Ibbs was also present.

2. I agree with the course Keith recommends in paragraph 5 of his minute. Clearly it would be premature for us to come to any firm conclusion about the Edwardes' proposals at this stage. While I can see there may be some advantages in what is suggested from the point of view of management succession planning, clearly this can only be one factor in deciding on the future structure of the organisation. Robin Ibbs pointed out that there appears on the face of it to be some contradiction between the Board's strong insistence thus ~~far~~ that a disposal of Land Rover would be wrong and Edwardes' apparent willingness to countenance separation of Land Rover into a company quite distinct from the Cars and Unipart groups.

(G.H.)

31 July 1981

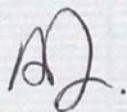
30 July 1981

B

MR LANKESTER

BL: FUTURE STRUCTURE

1. I share Robin Ibbs' scepticism about the urgency or wisdom of the proposals put forward by Michael Edwardes. There must have been about half a dozen reorganisations of BL in as many years since it came into public ownership. These constant modifications to structure seem to me a diversion from the more important issues of future ownership, collaboration, scale of business, financial requirements etc.
2. It seems very odd to propose putting Landrover with the Leyland Group when the latter's future is so problematic. There is very little attempt to relate the proposed changes to the objective of disposing of as much of the business as possible. Indeed, the rationale developed in Edwardes' letter seems rather too heavily dependent on continuity of top management. With BL's enormous calls upon public finance, our first priority should be a strategy that will reduce these calls - with managerial appointments (not necessarily drawn from within BL) designed to achieve these objectives.
3. Unfortunately, the recently planned meeting to reconsider our strategy towards BL had to be cancelled. However, I think that any message that Sir Keith gives to Edwardes about these ideas ought to leave him in no doubt that the Government expects more progress on collaboration or disposal to have taken place by December 1982.



ANDREW DUGUID

CONFIDENTIAL

Qa 05644

To: MR LANKESTER  
From: J R IBBS

28 July 1981

BL: Future Structure

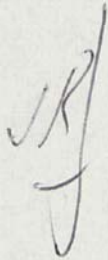
1. In his minute dated 24 July the Secretary of State for Industry raises two questions: the organisation that might prevail after Michael Edwardes has left and the future of the Leyland Group.
2. On future organisation it seems premature to form a view now. For a start it seems unwise to be thinking in terms of putting Land Rover with the Leyland Group when the fate of the latter is so uncertain. Furthermore, the proposal which Michael Edwardes is putting forward appears to be inconsistent with the very strong arguments he has previously advanced that Land Rover is a key feature in retaining the distribution network on which car production depends, and is also the 'bait' which should be kept available to obtain the right collaborative deal for volume cars including the possibility of ultimate disposal of the latter. It is hard to see how such considerations could readily be pursued if the only link with Land Rover was at the level of the Secretary of State and if it formed part of an otherwise entirely separate group whose basic task would be to develop its overall business in the way that best met its interests.
3. On the future of the Leyland Group there appears to be no realistic alternative to waiting until a plan is put forward by BL in October; it would not be appropriate to opt now for dissolution before the BL Board has provided the awaited plan. It is important that the plan should include options for Government to consider rather than being a single cut and dried proposal; it is also important that there should be no additional delay beyond October in providing it.
4. Similarly, on the overall BL plan for 1982 which is due in November it is important that it should not arrive late. There needs to be proper time to consider it and to avoid the sort of hurried



CONFIDENTIAL

decisions that were needed at the beginning of this year. It is also important that the plan should include separate figures for Jaguar and a clear statement of prospects for this part of the business.

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



CONFIDENTIAL



HL  
CC CO  
gdp

10 DOWNING STREET

From the Private Secretary

BF

MR. IBBS

CENTRAL POLICY REVIEW STAFF

I enclose a single numbered copy of a minute Sir Keith Joseph has submitted to the Prime Minister concerning the future structure of BL. I should be grateful for advice on this, and could you please return Sir Keith's minute.

- See  
ibbs to TL  
28/7.

I am sending a copy of this note, without enclosure, to David Wright (Cabinet Office).

T. P. LANKESTER

27 July 1981

gr.





PRIME MINISTER

BL: FUTURE STRUCTURE

1 You may like to see the enclosed strictly confidential letter from Sir Michael Edwardes, which, at his request, I have not circulated in the Department and which I am sending only to you and the Chancellor on a personal basis.

2 Edwardes proposes, in effect, a structure for BL following his own departure at the end of 1982. There would be two separate groups, each owned directly by the Secretary of State. The first group would consist of the Cars Group and Unipart, while the second group would include Land Rover and the Leyland Group (if it survives). All the four (or three) units would continue to be autonomous Companies Act companies on the lines we have already agreed. The present non-executive Board would be split between the two groups: each would have a non-executive Chairman (possibly Sir Austin Bide and Sir Robert Hunt respectively) and the two present executive members of the BL Board (Horrocks and Andrews) would each be Chief Executive of one of the groups. None of those affected knows of Sir Michael's thinking on these matters - hence the need for confidential handling of the papers. I also attach part of the record of a meeting on 9 July when Norman Tebbit and I challenged some of Edwardes' suggestions.

3 In some ways this proposal is attractive. It would ensure that BL as such would disappear and there is obviously a strong case for breaking BL into more manageable units. The same logic is behind the thrust to establish the four autonomous units. Moreover, there are clearly strong links between the Cars Group and Unipart (Edwardes argues that a car company cannot be run entirely independently of its spare parts operation) and between Land Rover and the Leyland Group. Much of Landrover's vital overseas marketing is shared with the Leyland Group and the two companies' production plans are increasingly closely linked

COPY No. 1

Prime Minister  
Robin Hobbs (Play A) and the Policy Unit (Play B)  
advise that it would be unwise to  
express any view on Michael Edwardes'  
proposals until a decision is taken  
on the future of the Leyland Group  
(i.e. heavy vehicles) in the autumn.

Agree?

PL  
30/7

X



(the Sherpa, now part of Landrover, will increasingly use Land Rover parts and is the basis of the Leyland Group's proposed new light truck). But there is a risk that linking Unipart to the Cars Group and Landrover to the Leyland Group might make it harder to introduce private capital into Landrover and Unipart. This could delay privatisation and we must take this into account.

4 We shall need to consider Edwardes' ideas in due course. But for the present I think we need to give priority to the still-to-be resolved issue of whether the Leyland Group should survive at all. Officials advise (and I agree) that BL should be told that the new Corporate Plan for the Leyland Group, due in about November, should cover fully worked alternatives including complete closure, a full range plan and a narrower range plan. There is a serious possibility, to put it no higher, that the Leyland Group will not survive the Board's own scrutiny. It does not seem sensible to set off now on a reorganisation geared to the Leyland Group's survival, especially as no immediate action will be delayed by deferring a decision.

5 I therefore propose, if you and the Chancellor agree, to tell Edwardes that we are not unsympathetic to his proposal, but will wish to look at it again after decisions have been taken on the Leyland Group.

KJ.

K J

24 July 1981

Department of Industry  
Ashdown House  
123 Victoria Street

COMMERCIAL - SECRET

Copy 1 of 6

TELEPHONE  
01-486 8000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

24th June 1981

RECEIVED IN  
S.O.S. FOR  
INDUSTRIES OFFICE

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

1981 VI 25 11:33

STRICTLY CONFIDENTIAL

*Dear Secretary of State.*

Following our discussion on 18th June, I am writing as we agreed to set out my thinking on the future organisation of BL, so that you can sound out your senior colleagues on the general approach. I have not so far consulted the BL Board but have discussed the concept with Austin Bide, who is in full agreement. If my thinking is acceptable in principle to you and your colleagues, I shall then, of course, involve the Board as well as setting in train some staff work, on a strictly confidential basis, to validate the financial and legal aspects of the proposals.

The main objectives of my proposals are:-

1. to carry forward the division of BL into more manageable self-contained units;
2. to facilitate the introduction of private capital into parts of our mainstream business; and
3. to match the key jobs (both executive and non-executive) to the personnel likely in practice to be available, taking account of the fact that my executive involvement ceases at the end of 1982.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

24th June 1981

2.

I propose that during the second half of 1982 we should work gradually towards the division of BL into two companies, which from 1st January 1983 would become completely self-contained businesses reporting separately to the Government. This would not involve any change in the four-business operational grouping being established this year. The new structure, which evolves from the current four-business split, is shown on the attached chart.

Possible Board membership is shown only for illustrative purposes. It is, however, important to note that under a two-company structure it becomes possible, in my view, to form the nucleus of the Boards and provide the necessary leadership from within existing executive and non-executive resources. The fact that the new structure mirrors the existing operational division between Ray Horrocks and David Andrews (each of whom now run two of the four business entities) should also facilitate a smooth transition, as I would be able to phase myself out of executive responsibility gradually between 1st September 1982, when the new Boards will be set up, and 31st December 1982, when my service contract expires.

Several obvious questions arise from this brief outline:-

- Handling of 1982 and 1983 Plans. I envisage that the format of the 1982 Plan should be the same as last year, i.e. a separate Plan for each of our four main business groups, with a summary volume for BL Ltd. The two new Boards would be fully involved in the development of the 1983 Plan which would, of course, consist of two documents, one for each of the new companies.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

24th June 1981

3.

- Future of functions currently performed by BL Ltd. Headquarters staff would be divided between the two new companies but would remain in one building to facilitate continuity. The two companies would probably maintain the existing pension fund arrangements on a shared basis. The future of certain other operations which provide shared services will require further study.
- Finance. The two new companies would become responsible for their own external funding, including the limited amount of Government funding which is envisaged on present assumptions. The disappearance of BL Ltd. will require the re-negotiation or replacement of all external loan funds. In particular, some £87m of loan stocks and associated borrowings is unlikely to be re-negotiable, but this is a necessary step in any case to lead towards privatisation.
- Private sector shareholdings. It would be necessary to solve the problem of the 80,000 minority shareholders of BL Ltd. - again, a pre-requisite of privatisation in any case. As an alternative to buying them out at a total cost of £12.8m, they could perhaps be offered an option to acquire shares in Land Rover or Unipart when substantial minority shareholdings in these businesses were subsequently floated. This would require a public commitment from the present Board that such a flotation should take place before the end of 1983.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

24th June 1981

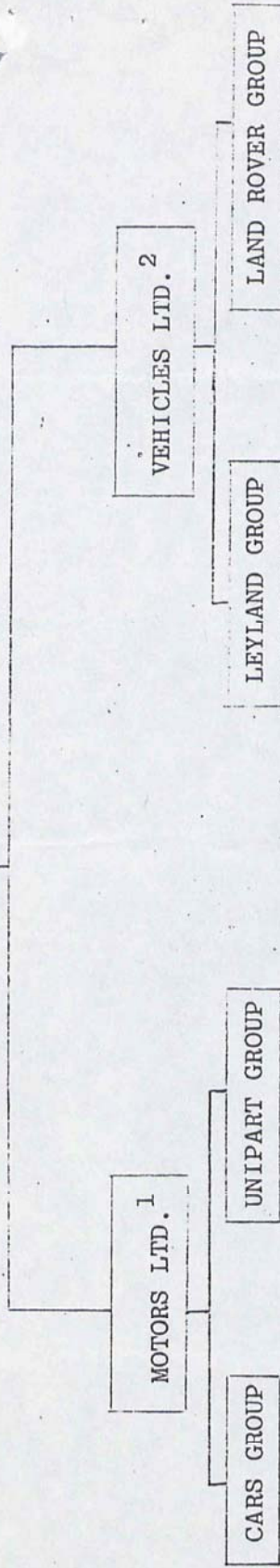
4.

I hope this gives you sufficient detail to enable you to consult your senior colleagues on the general principle. I do not expect a firm endorsement at this stage - simply an amber light which will make it worthwhile proceeding to the next stage of consulting my Board and validating the feasibility, particularly on the financial aspects. I intend to take the matter no further until I hear from you, and I understand that for your part you will restrict discussion to the Prime Minister and the Chancellor at this stage.

Your sincerely  
Michael S. Swann.

Enc:

GOVERNMENT



1 Nucleus of Motors Ltd. Board

Non-executive Chairman: (e.g.) Sir Austin Bide

Chief Executive:

R. Horrocks

Non-executive Directors: Sir Michael Edwardes

: either Sir Robert Clark  
or J.R. Mayhew-Sanders

2 Nucleus of Vehicles Ltd. Board

Non-executive Chairman: (e.g.) Sir Robert Hun

Chief Executive:

D.R.G. Andrews

Non-executive Directors: Sir Michael Edwardes

: Sir Robert Clark or  
J.R. Mayhew-Sanders  
(whoever does not  
serve on Motors Ltd.  
Board.)

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

FUTURE STRUCTURE OF BL

NOTE OF A MEETING HELD IN ROOM 11.01 ASHDOWN HOUSE ON THURSDAY, 9  
JULY at 1.30pm

Present

Secretary of State  
Mr Tebbit  
Mr Steele  
Mr Young

Sir Michael Edwardes

A Two or Four Company Structure

1 The Secretary of State, welcoming Sir Michael Edwardes, said that Ministers were in total agreement with his proposals for dividing BL into four separate companies. They did, however, have some questions about his proposals to group these four companies into two companies embracing the Cars Group and Unipart on the one hand and the Leyland Group and Landrover on the other. He wanted to know whether the division of BL into two companies on this basis reflected the fact that Sir Michael had identified only two suitable people to head up these companies.

2 Sir Michael Edwardes said that his decision was not related to the availability of potential chief executives. He thought it would be inappropriate to have four separate businesses reporting to the Department of Industry. His proposal was more organic; it would be possible to inject private money into Unipart but it would not be possible to bring about a complete separation between the Cars Group and the distributor of its parts. This meant that Unipart had, in some way, to be "hung on" to the Cars business. So far as the Leyland Group and Landrover were concerned, there was a continuing question mark over the future of Leyland Group. But both Leyland and Landrover were between 60% and 70% dependent on exports, they distributed in the same areas of the world, and frequently through the same franchises and owned outlets. There was a great deal of synergy between the two companies and, if they were completely separate, there would be a strong argument for a series of collaborative arrangements on distribution. It was therefore logical to hang the Leyland Group and Landrover together (but he stressed that



there was only a 50:50 chance that the management of the Leyland Group could demonstrate that they could justify not putting the Group into liquidation). Linking the Leyland Group and Landrover did not conflict with the logic of private sector involvement; he foresaw that there would initially be private sector involvement in Landrover, followed by private sector involvement in the holding company, followed, possibly, by private sector involvement in the Leyland Group. It would, he thought, be possible to dispense with the two company idea altogether but it would be a serious problem to structure four separate businesses so that the Department of Industry could deal with them. This would take a great deal of work, would involve the introduction of extra systems and would be much slower to implement than the two company arrangement.

3 Mr Tebbit enquired why the four separate companies should not report to a single central BL company as at present. Sir Michael Edwardes thought that the strongest argument for eliminating BL altogether was that it would introduce separate wage bargaining. In the present year he thought that the four entities were likely to have a uniform pay deal at somewhere between 0 and 4%; this was, however, an incidental effect of the recession and were it not for this factor he would expect Landrover and Unipart to be obliged to concede larger increases than the rest of the business. It was essential for the businesses to be separate in the following pay round when demand began to pick up. The central BL company was a focal point for political discussion and for the unions. It was also the wrong size. He personally would happily move to four entirely separate companies if the necessary management resources to achieve this could be found. There was nobody available who was suitable to take over the whole BL business; splitting BL into two separate companies as he envisaged would be possible with BL's existing management resources. There were individuals within BL who might act as chief executives of each of the four companies but they lacked the ability to deal with wider political issues which Mr Andrews and Mr Horrocks possessed.

4 Mr Tebbit suggested that a two company structure would preserve the wages problem. Sir Michael agreed but he thought that the problem would be at least halved. The Leyland Group

There were already separate for wage negotiations and there was an urgent need to separate Landrover's wage negotiations from those in the Cars group. He wanted to make each of the four businesses capable of failing and going into liquidation on its own. He also thought that privatisation would be easier on the basis of two companies; much of the preparation of the prospectus for the sale of Landrover would depend on suitable arrangements for distribution and, since Landrover depended on the Leyland Group for distribution in Africa, Australia and South Africa, the link seemed a sensible arrangement.

5 In reply to further questions from the Secretary of State and Mr Tebbit about the availability of a possible non-executive chairman covering all four companies, Sir Michael Edwardes explained that anyone who attempted to act as non-executive chairman of four separate companies would in fact find his whole time committed. If a full-timer was to be appointed it would be better to seek a chairman and chief executive but one would be remarkably difficult to find. Dividing EL's existing executive and non-executive team into two provided an easier solution. For example Sir Austin Bide could head the Cars Group and Unipart and would be able to put a check on Mr Horrocks who could carry out the chief executive's role. If there was to be a single chairman, it would be necessary to decide to whom the central legal and financial functions would report. The changes which he had in mind would involve a minimal impact on the Department of Industry.

#### Timing of privatisation

6 The Secretary of State enquired why Sir Michael did not envisage private money being introduced into Landrover in 1982. Sir Michael said that he preferred 1983 because it would take all of 1982 for Landrover to shake off the effects of the recession. Sale of 40% of the shares of Landrover in 1983 would yield more money. Moreover there was a lot of work to be done to complete the division of EL and a considerable additional burden would be placed on the EL management if they had to carry out all the work preparatory to privatising Landrover at the same time.

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Separate management companies would be established by 1 January 1982 but it would take until about the middle of the year to establish full finance and accounting arrangements which would be recognised by the City.



Ind  
Psl.

→ Sir M. Davies

10 DOWNING STREET

Note for memo: Bl.

meeting had to be  
concluded.

Travelling and Don  
said that in early  
mtg is really required,  
and that in school  
book of arrangements &  
mtg in Sept/Oct.

Rf

15/9

17

17/7

→ for Mr Hutchinson

Ami Amish

CONFIDENTIAL

Qa 05618

To: MR LANKESTER ✓

From: J R IBBS

BF

5/8

IL

10 July 1981

I suggest you just read this minute from CDAs, and the Flagged pages below - Summary of DoI report is at Flag D.

IL

Review of BL Prospects and Leyland Group Plan

10/7

Financial Results

Flag A

Profit/loss, and cash forecasts at Flag C

IL

1. I share the Chancellor's concern that recent profit figures for BL are substantially worse than those in the 1981 Plan. However, the fact that BL are within their cash forecast and are confident that they can remain so without prejudicing major investment programmes, reduces the need for a rapid intervention at this point. Nevertheless, the poor profits are a significant warning signal. They are probably explicable in terms of market weakness in the trough of the depression and a worsening compared with the Plan, on exchange rates, particularly vis-a-vis Europe. The situation should be watched carefully month by month by the Secretary of State, but unless judgement on the practical feasibility of closure has changed since earlier this year, it does not warrant having a major policy review before the 1982 Plan arrives. It is, however, most important that there should be no delay in producing this. An unsatisfactory feature of the figures recently supplied is that they did not include comparable figures for 1980 results. The Secretary of State should insist that figures to provide such historic comparison are always submitted.

Light/Medium Cars

2. For volume cars it remains doubtful if their internally generated funds will ever be sufficient to finance development of the new models to replace the Metro and LM10. This means that pressure must be kept on the BL management actively to seek ways of getting this business out of State ownership. The hope has to be that in 2-3 years' time it may be possible to dispose of it to a car manufacturer who may be interested in taking the products, manufacturing facilities and dealer network to supplement his own business. However, it has to be recognised that such an outcome may not prove possible, indeed I believe it is unlikely, and that in the end the business may have to be closed when the industrial, commercial and social consequences of doing so can be better accommodated.

CONFIDENTIAL

Jaguar

3. No separate information is provided on the Jaguar business area. There is reason to believe that Jaguar may be making serious losses and that its prospects may have worsened since the 1981 Plan was prepared. It is important that this part of the business should be given explicit separate consideration in the 1982 Plan, including separate financial data.

Land Rover

4. Land Rover has been one of the stronger parts of BL's business and the deterioration in its performance (a forecast of a profit of only £2m. in 1981 as compared with Plan profit of £25m.) is disturbing. BL need to be pressed to explain clearly what is happening to this business, which is potentially its most readily disposable asset, but which will obviously not command a good price if the deterioration continues.

Leyland Group Plan

5. The BL Board has again failed to produce a plan for the Leyland Group. They are responsible for the whole BL business, including the Leyland Group, and it is not acceptable for them merely not to endorse the Plan of a subsidiary. The underlying difficulty appears to be that the market for trucks has fallen away and this has starkly revealed the weakness of parts of their truck range, and past errors and omissions of management.

6. It would not be appropriate to demand immediate dissolution of the Leyland Group because at least the bus and heavy truck sectors of the business may have worthwhile prospects. Immediate dissolution would also have serious implications for the financing of the BL group as a whole. The right course appears to be Option A proposed by the Department of Industry, i.e. the BL Board should be requested to undertake a radical review of the alternatives open for the Leyland Group and to present their study and evaluation of alternatives in the 1982 Plan to be submitted this Autumn.

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

*WJ*

paras 71-34  
of Industry  
paper Page B

CONFIDENTIAL



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212  
SWITCHBOARD 01-212 7676

3301

10 July 1981

Secretary of State for Industry

The Rt Hon Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*Geoffrey Howe*

FUTURE OF BL

We are meeting the Prime Minister on Monday 13 July and will discuss your minute of 9 July.

2 All the subjects which you mention are, of course, for discussion. There are, however, two points in your minute on which I should like to comment in advance.

BL's performance this year

3 In your paragraph 3, you say that BL have fallen short of achievement in virtually every one of the major components of the 1981 Plan. This is, of course, true of profit; the exchange rate and activity assumptions made in the Plan now look too optimistic. But:

- Market Share is running at 20.5% so far this year for cars against a target of 18.3%. Lorries are close to target albeit in a depressed market;
- Productivity is on target and is 30% better for cars than in the same period of 1980;
- Manpower Reductions were 8,000 better than target by the end of May;
- Fixed Costs, at £488 million to end-May, were about £30 million better than target;
- Cash Outflow was £176 million to the end of May, only about half the forecast level of £349 million for that period;
- Model Programmes are on time and within cost.

Disposals of peripheral activities and assets

4 In paragraph 6 of your minute you suggest that we should press for accelerated progress in realization of the £125 million from potential disposals identified in the 1981 Plan. In fact, BL stated in the Plan that only £70 million in actual proceeds

CONFIDENTIAL

CONFIDENTIAL



could be raised in 1981-85. Already £50 million has been raised in 1981, so BL are well ahead of target. Much of the rest is industrial property, for which the projected values cannot be secured at present.

5 I am copying this letter to the Prime Minister, Jim Prior, Robin Ibbs and to Sir Robert Armstrong.

*Leam.*

*Kari.*

CONFIDENTIAL



CONFIDENTIAL *A*



*✓* *A. Walters*  
*A. Digby*  
*D. Wolfson*

*2 PPT*

*MT*

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

PRIME MINISTER

BL

I have been thinking about the meeting arranged for Monday 13 July in the light of my letter of 9 June to Keith Joseph and his reply of 3 July.

2. The immediate need for the meeting is to consider the report by officials of their examination of the Corporate Plan for Leyland Group, but I note that Keith agrees that we should take stock of the affairs of BL as a whole. I welcome Keith's assurance that in respect of the Leyland Group all options will be considered. My worry is that with two major matters like this on the table the discussion may become too broad and generalised, with the risk that more specific issues to which we should direct our attention may be missed.

3. In my view the starting point for our discussion should be the latest revised forecast for BL as a whole. The focus here must be the upward revision in the estimates of accrued losses in the three year period 1981 to 1983. I understand that these losses are now forecast to amount to over £300m over this period, more than seven times higher than the comparable figure in the 1981 Corporate Plan. I am aware that Michael Edwardes claims this deterioration arises from factors exogenous to BL itself - less buoyant overseas and domestic demand and so on - and that he is confident he will be able to find means of avoiding the losses becoming reflected in cash flow. Nevertheless, these revised forecasts hardly suggest that BL is moving towards viability: nor can we feel confidence, in spite of Michael

CONFIDENTIAL



Edwardes' assurances, that when it comes to it Government funding agreed in the 1981 Corporate Plan will be sufficient to close the widening finance gap. The Plan after all has been running for only six months, and has fallen short of achievement in virtually every one of its major components.

4. Against this background, I suggest our next step should be to give urgent and specific considerations to finding ways and means of containing the Government's commitment. This may well require a drastic change to Michael Edwardes' concept of the company's future. The situation, as I see it, calls for a much more vigorous programme of disposal and closures than he seems prepared to contemplate.

5. The Leyland Group Plan is relevant here given the deteriorating performance of the Group. My impression is that Michael Edwardes' first priority is to look for collaboration deals rather than disposal possibilities, not only in respect of Leyland Group but over the whole range of the company's operations. But how far it will prove feasible to negotiate such deals, other than in the limited sense of arrangements like the Honda agreement on the Acclaim, must be open to doubt given the company's dismal prospects. BL simply does not look like the kind of company which more successful motor manufacturers are going to want to become closely associated in a financial sense.

6. The disposal problem falls into two. First, there is the long list of disposals agreed by Michael Edwardes in the 1981 Corporate Plan. Over 1981 to 1985 these amount to a probable cash value of £125m. Alvis has already been sold and I believe Coventry Climax is to be shut down. In my view we should consider pressing for accelerated progress on the other items in the list - it is not apparent to me why the process of disposal need stretch out over such a long period.

✓

---



7. Second, we should examine the case for disposals (or closures) on a wider and more dramatic scale. Landrover for example, which I note has done badly in 1981, must still be a saleable asset. On the other hand Jaguar, which might have been saleable at one time, now seems - despite being helped a little by the appreciation of the dollar - to have an uncertain future. I am not altogether persuaded by the optimism of its Chairman (reported in today's FT). We shall need to probe this closely: BL cannot afford a prestige model which is unlikely to be able to pay its way within a reasonable period of time. Then there is the Leyland Group itself; the possibility of disposal and closure of the various components which make up the Group lies at the heart of our consideration of the plan for the Group.

8. If all these various possibilities were pursued with determination and vigour BL would emerge as a more concentrated company orientated towards the production of a limited range of volume cars. Whether all this would make longer term sense is something we should need to give further study. It might however provide a set of sensible and logical objectives against which a 1982 Corporate Plan could be framed.

9. In short, in view of BL developments so far this year we should not sit by and wait for the 1982 Plan to emerge; although, no doubt this will offer renewed assurances that things will look better by the mid 1980's. There is too much public money at risk, and we cannot afford to add to our commitments. Fringe operations, not crucial to the business should be eliminated now, either by sale or closure, while in the case of Leyland Group our approach should be based on a realistic assessment of the prospects for early recovery. It may well be that the future for BL lies in a more concentrated product strategy than was contemplated when the 1981 Corporate Plan was framed.

CONFIDENTIAL



9. I am copying to Keith Joseph, Jim Prior, Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

9 July 1981

CONFIDENTIAL

JH 419



cc Douglas/Hosby 15  
Wolper  
Waiters

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

9 July 1981

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*mb*

*John G. H. H.*

THE LEYLAND GROUP PLAN AND BL'S FINANCIAL PROSPECTS

As mentioned in my letter of 2 July, officials of this Department, together with those in the Treasury, CPRS, and other Departments concerned, have been examining the revised Corporate Plan for the Leyland Group submitted by BL at the end of May. I have today received their report, which, because of time, is not an agreed interdepartmental report but attempts to harmonise the various points of view expressed. I have not had an opportunity to study the report, but I am sending it to you and other colleagues straight away so that you have time to consider it before the meeting which the Prime Minister is chairing on 13 July.

2 I also attach a copy of a letter sent to me by Michael Edwardes on 3 July covering revised financial forecasts for BL as a whole for the years 1982 and 1983, together with a note on the forecasts prepared by officials of this Department in consultation with the Treasury and the CPRS. This should enable us to assess the Leyland Group Plan in the context of BL's overall financial position and prospects. These documents also I am sending to you without prior study.

3 I am sending copies of this letter and enclosures to the Prime Minister, Jim Prior, Robin Ibbs and to Sir Robert Armstrong.

*Geneva,*  
*Kew*



D

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

LEYLAND GROUP : REVISED 1981 CORPORATE PLAN

Note by Department of Industry Officials

SUMMARY

- 1 The 1981 BL Corporate Plan was only provisional as regards the Leyland Group (commercial vehicles). Shortly after submission of the 1981 Plan, the Leyland Group's management was changed, and the new management are still completing plans to respond to the extremely severe cyclical trough facing commercial vehicle makers worldwide. The present revised Plan leaves important issues unresolved; and is also based on sales forecasts about which the BL Board themselves reserve judgment.
- 2 The BL Board do not propose approval of the Plan; it should be used as a short-term operating Plan until the autumn when the Board takes firm decisions on whether they can support the Group or should, instead, close it or reduce its scale drastically (which could involve closure of either Bathgate, in Scotland, or Leyland in Lancashire). By then, they expect to be able to judge better the new management's performance, its proposed plans on unresolved issues, and the sales forecast.
- 3 Until very recently, the Leyland Group has been seen as a strong part of BL and of the UK's manufacturing base, to be isolated as far as possible from the much worse Cars business. But it has been declining throughout the late 1970s, is now running at a severe loss, and is only expected (even on the sales forecasts described below) to return to modest profit in 1982. At a time when the Cars business is making major progress, the Leyland Group has moved into severe difficulties.
- 4 The sales forecasts foresee a strong cyclical recovery in the UK market in 1983 and 1984, which is plausible. They also predict a considerable (though not massive) recovery of market share to the level of the late 1970s, and a very large increase in export volume based on the new model range now coming into production; we have substantial doubts about whether these forecasts are achievable.
- 5 The new management have, since it was submitted, settled several of the issues left unresolved in the Plan. The financial forecasts may not take full credit for the corrective actions still to be taken. But there are downside risks too.
- 6 The Leyland Group is pursuing collaboration on engines to save costs, and for the same reason is planning to buy instead of making a gearbox.
- 7 In the long run, the Leyland Group may be too small to survive as an independent full-range producer. It is actively seeking large-scale collaboration or merger, but we conclude, after a review of possibilities, that a partner is unlikely to emerge in the next two years, while the world commercial vehicle industry is in acute recession.



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 2 -

8 We share the apparent scepticism of the BL Board about the achievability of the Leyland Group Plan. But the only effective alternative to a decision to proceed to immediate dissolution is to invite the Board to assess all the possible courses between a full-range Leyland Group and dissolution; in particular, a narrower-range operation probably based on buses and the larger trucks and probably involving closure of either Bathgate or Leyland (Lancs). The Government cannot sensibly prescribe such a course without asking for the Board's assessment and detailed alternatives; and the Board can hardly carry out such a radical review more quickly than they are already committed to in their main Corporate Plan timetable.

9 Immediate dissolution would probably result in the closure of virtually all the UK operations except the bus manufacturing operation (which accounts for 2,500 out of the Group's total UK workforce of 21,000). Apart from buses and certain overseas operations, only break-up values can be expected for the assets, given the present deep world recession in commercial vehicles. The costs of an immediate dissolution depend on the view taken about the effects on aggregate unemployment levels; on the basis described in Annex IV, the first year PSBR cost could be in the range of £230m to £280m. The cost of continuing to fund the Leyland Group while a radical review of options is carried out and presented with the Corporate Plan is likely to be of the order of £50m.

10 Given the comparatively small cost of deferment, the poor prospects for much of the Group surviving a dissolution, and the possibility of viability being established - perhaps on a reduced scale - as a result of a radical review of options, we recommend that the BL Board should be told that the present Plan is acceptable only as a short-term operating Plan while a radical review of options is carried out. These options should then be presented in the context of the 1982 Leyland Group Corporate Plan in fully-developed form - including operational plans - covering a full-range strategy; a narrower-range strategy based on contracting out of potentially less profitable sectors; and closure with disposal of those parts of the business which can be sold.

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE



LEYLAND GROUP REVISED 1981 CORPORATE PLAN

NOTE BY DEPARTMENT OF INDUSTRY OFFICIALS

I INTRODUCTION

A Revised Plan

I In their summary to the main BL 1981 Corporate Plan, the BL Board wrote:

"So far as the Leyland Group is concerned, the BL Board is not satisfied with some important aspects of the 1981 Plan. These relate to product policy, the use of installed capacity and collaboration. It has not been possible to resolve these in time for this Plan proposal. The Board will therefore re-examine the Leyland Group Plan in early 1981, when these issues should be clearer. The results of that re-examination will be put to the Government."

The revised Leyland Group Plan, which is the result of this re-examination, was submitted under cover of a letter from Sir Michael Edwardes dated 28 May 1981 (Annex I). It has been prepared by the new management of the Leyland Group against a backdrop of a serious deterioration in the financial prospects for the business.

2 Of the main unresolved issues noted by the BL Board, some have been settled since the 1981 Plan was put forward. Most important of these are BL's proposals for the replacement of light trucks and panel vans. The proposed involvement of the Freight Rover (Sherpa) division of Land Rover for the panel van sector of the truck market means that some assembly facilities at Bathgate (Scotland) can be closed. However, for various reasons, the BL Board feel unable to take the firm view promised at the time of the main 1981 Corporate Plan:

- a) there are further aspects of the future of Bathgate which remain to be decided (dependent on tractor and engine strategy);
- b) the main collaborative proposal identified in the 1981 Plan - with Cummins/Case on light diesel engines - although nearer completion, is not yet fully agreed;
- c) although the BL Board profess themselves satisfied that the new management is taking all possible steps to reduce fixed costs, they feel it is premature to take a firm view on the crucial question of forecast sales volumes.

An important aspect of the BL Board's reservation is that a substantially new top management has been installed at the Leyland Group since January 1981, which needs time both to prove itself (on cost-cutting in particular) and to develop its own solutions to the key outstanding issues.





CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 2 -

3 Accordingly, the BL Board propose that the 1982 Leyland Group Plan, due to be put to the Government as part of the main BL Corporate Plan later this year, should address the unresolved issues. The Board feel that by the autumn they would be in a better position to take a view on the level of confidence they could place on the truck plan, on these grounds:

- i) the Cummins/Case negotiations should then be in their final stages;
- ii) the existing unresolved issues such as the future of Bathgate will have been decided;
- iii) the Board expect to be in a somewhat better position to judge the forecast sales volumes.

The BL Board also say that, if the Leyland Group performance during 1981 demonstrates that the truck business could not be made viable, the 1982 Plan would examine more drastic alternatives for the business, including ceasing truck operations altogether or reducing the UK truck product range to cover narrower market sectors.

#### Options for Ministers

4 The BL Board do not recommend approval of the Plan as a long-term strategy. Their proposal is that it should serve only as an operating plan for the months before the full BL Corporate Plan is submitted in November. By then, the BL Board expect the unresolved issues noted in paragraph 2 above to have been determined/in the time since the Plan was submitted) and intend themselves to take firm decisions on whether to support the Plan or to go instead for more radical options.

(several of them have already been determined

5 It follows that there is no question of Ministers' approving the present Plan. The effective range of options is:

- a) to accept the Board's proposal, if necessary with some qualification; and
- b) to reject it and to ask the BL Board to carry out the immediate dissolution of the Leyland Group.

## II APPRAISAL OF THE PLAN

### Background

6 The truck and bus manufacturing operations which now form the major part of the Leyland Group have historically been a profitable and important part of the British motor industry. The Leyland Group's record of success persisted after the merger with the then British Motor Corporation. Within BL, it has until very recently been seen as an area of actual and potential health, to be insulated from the problems of the Cars side.



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 3 -

7 However, the truck business's record has deteriorated in recent years and, as the table (in paragraph 11) shows, its market share has drifted downwards during the late 1970s. This structural decline in the company's fortunes was during 1980 aggravated by an extremely severe cyclical downturn in demand. This downturn has affected all truck manufacturers in Europe and North America but Leyland Group is particularly badly placed to cope because of its poor market performance in recent years. The key question underlying this Plan is therefore whether a credible programme can be identified to restore the Leyland Group's truck operations to their former strength, at an acceptable cost and within a reasonable timescale, given the hostile and competitive environment within which this must be achieved.

Current financial position of the Leyland Group

8 Leyland Group's forecast £74m losses in 1981 are more than twice as large as both the 1980 figure and the 1981 budget figure, and reflect an unprecedented fall in truck demand. The Group has lost £37m to the end of April 1981 (compared with a budgetted loss of £18.3m) although cash outflow is being contained, largely by reductions in capital expenditure, which is currently running 40% below budget. By the year end, capital expenditure is forecast to have recovered virtually to its budget level, and cash outflow, at £95m, to exceed budget by £20m. Leyland Group is not alone in such poor results - for example, both International Harvester and IVECO made considerable losses in 1980, as did some of the smaller UK producers, eg ERF, and virtually every commercial vehicle business in Europe is believed to be operating at about or below break-even in real terms.

Main points of the Plan

9 Leyland Group sales volumes are projected to increase from 50,000 units in 1981 to 82,000 units by 1985, and its trading account position to improve from a loss of £74m in 1981 to a profit of £130m in 1985. The Group is projected to become self-financing in cash terms by 1984. Fixed costs are planned to be strictly controlled in all companies, particularly in the UK. Capital expenditure peaks in 1982, partly due to the Leyland Vehicles revitalisation programme and partly due to the heavy investment in Ashok Leyland (although this will not involve any financial commitment from the parent company). Manpower, which has been cut back in the UK in 1981 will increase to meet the projected volume growth, particularly in India. Further details of the Plan are contained in Annex II.

Economic assumptions

10 The economic assumptions on which this Plan has been drawn up are those which BL intend to use as a basis for all their 1982 Corporate Plans. They differ from the 1981 Plan assumptions by being more pessimistic on activity (a 3 percentage point reduction from 1980 rates instead of a 1 percentage point increase) and exchange rates (an effective rate of 100 for 1981 instead of 94). These



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 4 -

assumptions have been discussed with Treasury officials (although without any Government commitment to them). Although of course much uncertainty attaches to such forecasts, it is worth noting that BL's current economic assumptions may be if anything somewhat conservative rather than central, compared for example with the year to date EER of 99.6, and a current rate of 93.

Market prospects

11 Leyland's forecast UK sales can be broken down into two components: market volume and market share. Exports break down into European and all other markets.

Trucks and articulated vehicles

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
UK market size '000	61	70	80	61	46	50	60	75	70
UK market share % *	22.8	19.3	17.3	17.3	17.7	18.6	18.5	19.5	21.6
UK sales '000 *	14.2	13.2	13.9	9.2	8.2	9.9	12.0	15.2	15.4
<u>Exports:</u>									
Europe '000	1.1	0.8	1.0	0.7	0.8	1.06	1.8	2.3	2.8
% increase/ (decrease)	-	(27)	25	(30)	14	33	73	24	21
Other '000 (including buses)	12.2	9.0	10.0	9.1	9.7	12.6	13.6	14.4	15.4
% increase/ (decrease)	-	(26)	11	(9)	7	30	8	6	7

\* Market share figures refer to registrations, and sales figures to deliveries.

The BL forecasts of UK market size look realistic and compare very closely with both the SMMT's and the Department of Industry's own latest forecasts in showing a sharp cyclical rise.

12 The revised Plan projects market share increasing over the period 1981-85 by 4 percentage points. This would still leave Leyland Truck below its 1977 market position. The most important contributors to the increased market share are light trucks (approximately 3.5 - 7.5 tons GVW), which account for 30% of the total truck market, and over-28 ton articulated lorries. BL are, because they no longer meet emission requirements, phasing out most of their existing light truck models in the early part of the Plan period, and are relying on the ageing Terrier model to maintain market presence until the introduction of a new light truck model in 1984. Although BL reflect this model availability pattern in



their market share forecasts, the ability of the Terrier to provide a launch base for the new model must be questionable. For this reason, there is a considerable risk that the light truck market share forecast for 1983 and 1984 will not be achieved. At the heavy end of the market, the introduction of the T45 series over the Plan period is assumed to offset some of these problems. The better than forecast sales performance of the T45 so far this year suggests that the heavy truck market share forecast may be better founded.

13 The Plan envisages most of the future growth in sales coming from exports, which are projected to increase by 30% between 1981 and 1982 while domestic sales increase by only 21%. Historically, UK sales have exceeded exports in volume terms; this position was reversed in 1980 and continues to be so throughout the Plan period. Since profit margins on export sales are considerably lower than on UK sales the achievement or otherwise of these exact export forecasts is not necessarily vital to the profit forecast. However, high export levels will enable the Leyland Group to take advantage of the economies of scale resulting from higher volume production. Their achievement will therefore have an effect on the competitiveness of the Leyland Group generally.

14 As they stand, the assumptions made in the Plan about exports to Europe seem highly optimistic, showing substantial year on year increases. The 73% increase for 1983 seems particularly optimistic, in view of the strength of sterling against European currencies and Leyland Group's declared intention to cut representation in Belgium and the Netherlands to a minimum and to concentrate their European marketing effort in only two countries, France and Eire. Leyland Group management have defended the forecasts by referring to the extremely buoyant French commercial vehicle market and their expectation of capturing a share of this after a suitable period for familiarisation. In overall terms, the projected European sales volumes are however small.

15 Although there is reason to believe that some other overseas markets, such as Nigeria, offer good prospects for greatly increased sales on recent recession-affected levels, the above projections nevertheless appear optimistic despite the new model line-up specially designed for third world markets; in particular, they do not appear to take sufficient account of the likely difficulty in obtaining ECGD cover in certain key markets. Taking account of this, the above projections could be overstated by some 15%.

16 The Leyland Group should undoubtedly increase UK and overseas volumes as the total industry volumes pick up after the recession, and as more of their new model range becomes available. We do, however, have substantial doubts whether, in all markets, they can achieve the increase they forecast, especially as their competitors are currently improving their product ranges as well.

#### Cost cutting

17 As a result of decisions taken since the new management took over in January, Leyland Group are taking action to cut costs



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 6 -

by strict inventory control; trimming of capital expenditure programmes; and cuts of up to 5% in fixed costs. However, they envisage it may be necessary further to reduce their manufacturing base - even if the demand forecasts materialise - and Leyland Group will consider (as part of the 1982 Plan) closing or mothballing part of Bathgate. The effects of these measures on the Leyland Group's financial situation are not taken into account in the forecasts presented with the Plan.

Collaboration

18 The Leyland Group currently has capacity in the UK to produce 52,000 units - and is represented right across the truck and bus market. As with BL Cars, the question is whether Leyland Group is now too small to be competitive over the full model range. Some other European producers (Ford, Renault, MAN) are in a similar position. Others (IVECO, Daimler-Benz) have at least double the capacity of Leyland Group; while some producers have similar capacity, but cover a much narrower segment of the market (Volvo, Scania, Bedford). It is open to question whether the Leyland Group in its present shape can secure the production economies necessary to compete in the current tough market environment. It is for this reason that, over the last three years, Leyland Group has actively sought collaboration of two main kinds - on components, in order to secure economies of scale on those items whose cost is particularly volume-sensitive; and on full production, whether by outright sale, by merger, by joint production of particular models or by shared marketing. In most of these cases, a producer with a complementary market range is required. Because of the obvious importance of a possible disposal, or a collaboration which could lead to a disposal (analogous to what is being sought for BL Cars), we have examined the range of possible candidates.

19 The Leyland Group have overall come rather late to the search for collaborative partners - as has BL as a whole. There is a lot of international activity already in progress. The only deal of any size so far concluded gives the Group the right to manufacture a gearbox under licence from ZF, a West German components manufacturer; however, in order to cut costs the Group is likely to buy this gearbox directly from ZF, at least initially. The major collaborative deal on components currently being pursued by the Leyland Group is the development and manufacture of engines with Cummins and Case; if concluded, such an agreement would be highly advantageous in procuring economies of scale.

20 A current difficulty in seeking collaboration is the weak financial position of most major commercial vehicle manufacturers. This may well preclude these (IVECO and International Harvester in particular, both of whose financial difficulties have been well publicised) from pursuing major collaboration/merger deals as it would preclude them from considering outright purchase. The remaining European manufacturers may find some commonality of interest (Volvo, Scania, Magirus Deutz, Daimler Benz, Renault) with the Leyland Group on minor collaboration, but it is difficult to find a product match for a large-scale merger. In addition, Renault is currently engaged in assimilating the Dodge facilities and franchises it has recently bought into.



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 7 -

21 One of the main attractions of the Leyland Group to a potential partner is its new over-28 ton articulated truck family (starting with the T45) and the modern manufacturing facilities at Leyland where it is built. Of manufacturers in Europe, the availability of the T45 would suit Ford's needs in particular. Ford have begun to overhaul their model range from the lighter end - 3.5 tons and upwards - and have now introduced their Cargo series. Leyland Group, on the other hand, have started at the heavy end with the T45 series. The complementary nature of the stages reached in the companies' model renewal programmes suggests that both companies might see advantage in merging their activities. Given the acute financial embarrassment of Ford in the USA, however, it must be regarded as unlikely that, at least in the next two years, Ford would be able to undertake the commitment which a major collaboration with the Leyland Group would entail.

22 Outside Europe, only the Japanese are likely to be attracted by a major collaborative venture. The Japanese enjoy a growing presence in the light panel van end of the UK market - an area where BL, with the Sherpa, are weak - but are not strongly represented in other sectors. Collaboration with Leyland would enable them to acquire manufacturing facilities, a presence in Europe and a base for expansion into third world markets, where they might be attracted. The Japanese, however, might consider that there was no advantage in inheriting Leyland Group's ageing middle range vehicles.

23 As a result, we conclude that there is little prospect of another manufacturer taking over or merging with the Leyland Group, at least within the next two years.

Funding implications of the Plan

24 Within the sums already announced for BL as a whole, the amount of funding which is currently destined for the Leyland Group is £100m in 1981 and £50m in 1982. Over the period 1981-83 there will also be some net increase (around £20m) in the private sector borrowing of the Leyland Group. BL state firmly that they will not seek, from the Government, funding for 1981 and 1982 beyond what has already been agreed (ie £620m and £370m for the whole company). The Leyland Group Plan shows a cash outflow in 1981 of £18m more /than was projected in the main 1981 Plan, but BL's latest corporate forecasts provide for this to be more than offset by the improved 1981 forecast cash position of the Cars Group.

Risks to the outcome

25 The Leyland Group revised profit and cash flow forecasts have been prepared on the basis of "central" economic assumptions. The company has also assessed the financial implications of both a more pessimistic and a more optimistic set of economic assumptions (which are described in Annex III). The effect of these alternative assumptions on the Leyland Group's profit (PBIT) and cash flow (CF) is:



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 8 -

	<u>£m current prices</u>				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Central Case:					
PBIT	(74)	21	77	98	131
CF	(94)	(64)	(22)	13	15
'Optimistic' Case:					
PBIT	(64)	66	158	249	384
CF	(89)	(21)	49	118	185
'Pessimistic' Case:					
PBIT	(82)	(6)	45	53	77
CF	(97)	(75)	(46)	23	36

It should be noted this approach is rather mechanical: it assumes that the basic business strategy of the Leyland Group will be unaffected by changes in the economic conjuncture. In reality, the 'pessimistic' case (with its high exchange rate path) would probably force the company to re-appraise at the very least its export strategy and perhaps its whole future.

26 The external economic environment is only one aspect of the risks facing Leyland Group. Of equal, perhaps greater, importance are the risks within Leyland Group itself. These include Leyland's ageing model range in certain market segments, and hence its ability to achieve its market share forecasts; the possibility of slippage in the timing of product plans; its ability to improve productivity to the extent planned; the likelihood of achieving the predicted increased export penetration; and the reality of its forecast reductions in fixed costs. These are all sizeable risks, some of which, for example reduction in fixed costs, have a direct and immediate impact on profitability. A consistent failure to achieve these many targets would result in the continuation of Leyland's loss-making position, if offsetting action were not taken. A 10% shortfall in total sales volumes would have the following effect on profit:

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>£m current prices</u>				
(6.6)	(9.5)	(12.4)	(15.3)	(19.3)

These sensitivities are an understatement of the effect on profitability of volume shortfalls in that they take no account of the effect of volume reductions on economies of scale in production, price advantages of scale in purchasing, unit fixed costs and the ability to retain dealers and hence future market share. On the other hand, the forecasts as yet take no account of the cost-cutting action being taken or contemplated, in particular the further reductions in capacity at Bathgate. Despite the immediate costs, this action should in later years significantly improve the profit forecasts.



Effect on other manufacturers

27 The Leyland Group expect to improve their market share in all sectors except one. A reasonable way of assessing the market impact of this share's being achieved would be that other producers will lose market share in proportion to their weighted share of the total UK market excluding Leyland. With the total importers' weighted share of the non-Leyland UK market standing at around 25% in 1980, it is clear that the greatest impact of displacement will be felt by UK producers. In market share terms the main sufferers will be Ford, Bedford and Dodge. At the heavier end of the market Seddon Atkinson, ERF and Sandbach Engineering (formerly Foden) would bear the brunt of displacement along with Volvo, DAF and Scania. It is only at the heavy end that importers have a significant share of the market, either individually or collectively, and even here some of the Volvos are assembled in Scotland.

28 Translating these effects into implications for the strength and viability of the individual UK producers is difficult. The decline in market shares may be quite consistent with increases in total individual sales - and indeed would be if Leyland TIV forecasts proved to be right. But insofar as Leyland were simply recouping market share lost over recent years, the smaller producers (of which two are in fact subsidiaries of large multinational companies) would return to the smaller volumes they produced before Leyland's decline. Whether these levels of operation, either with or without an improved Leyland performance, would be economically sustainable in an industry of increasing scale, standardisation and competition, without rationalisation and merger, must be doubtful. Alternatively, it could be argued that Government support for the Leyland Group is incidental to the future of the small independents, who have lost a lot of ground to the importers even during the Leyland Group's period of decline. On the whole, we do not think the disappearance of the Leyland Group would in itself be the salvation of any UK truck manufacturer whose survival is at present doubtful.

Unresolved issues

29 Four major issues are identified in the Plan as being undecided. These are:

- i) European truck marketing: since the Plan was produced, Leyland Group management have decided to concentrate their European marketing effort on France and Eire alone;
- ii) tractors: this has always been a peripheral activity for Leyland. In view of the small and declining demand for their tractors, and the need to secure fixed cost reductions, Leyland Group management have decided, since the Plan was produced, to cease production of tractors in 1983;
- iii) Bathgate: final decisions on the amount of assembly capacity at Bathgate depend on the outcome of the Cummins/Case collaboration proposals;





CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 10 -

- iv) gearboxes: a decision has been taken to buy gearboxes from the West German firm ZF, rather than to manufacture them under license at Albion (near Glasgow). Consideration is being given to the transfer of axle manufacture from another BL plant to Albion, and the closure or sale of the other plant (which is part of BL Cars).

IV      OPTIONS

30      The effective range of options, as explained in paragraph 4 above, is:

- a)      to accept the Board's proposal (which is effectively to defer decisions until the new BL Corporate Plan), if necessary with some qualification; and
- b)      to reject it and to ask the BL Board to carry out the immediate dissolution of the Leyland Group.

Option A

31      The cost of this option is the amount of funding that the Group requires between now and when the final decision is taken. Some £100m of the total funding agreed for BL for 1981 is allocated to the Leyland Group. It is impossible to tell how much of this funding has been "used up" so far this year: the Leyland Group has lost £37m in the four months to the end of April, and has spent £10m on capital items. As a rough approximation, the amount "at stake" in deferring by about four months a decision to liquidate the Group is thus of the order of £50m, assuming that a liquidation could be carried out in four months' time on similar terms to one begun now.

32      The BL Board have advocated deferring decisions on the Plan because they feel that they will be in a better position in the autumn - on the basis of four or at most five months' further information - to take a view about whether or not this Plan can be achieved. The two key points underlying the Plan on which a view will need to be taken at that time are:

- a)      the Group's performance during 1981, and the effectiveness of the new management. The Board will be taking a view on this on the basis of August financial information and against the background of the corrective action taken during the year;
- b)      the Group's sales forecasts for future years, which currently depend on a recovery of the depressed UK truck market and an increase in overseas sales.



/leaves

33 At the time of the main BL 1981 Corporate Plan, BL promised to produce firm proposals for the future of the Leyland Group in the spring of this year. They have not done this, partly in the sense that the Plan itself/major issues unresolved (though some have been settled since it was prepared), and partly in the more important sense that the BL Board have withheld their endorsement. The withholding of endorsement is partly because of the still unresolved technical issues like the important Cummins/Case engine proposal; but much more fundamentally because of their scepticism about the sales forecasts and because the new management of the Leyland Group is still working its way in. Mr David Abell left Leyland Group in December 1980, after the 1980 Plan was prepared. The new management under Mr David Andrews (Executive Vice-Chairman of BL and also Chairman of the Land Rover Group) was installed progressively from January, and faced an unexpectedly grave and deteriorating position. But the current situation of uncertainty cannot be allowed to drift beyond the autumn.

34 We believe that the grounds for scepticism about the Leyland Group's sales volume forecast, and hence about the Group's long term viability as a full-range commercial vehicle producer, are substantial if not yet overwhelming. We do not therefore believe Ministers can simply accept the Board's proposal to defer judgment. This option, therefore, is best viewed not as acceptance of the Board's proposal, but as a formal request by Ministers to the BL Board that they should carry out a radical review of the alternative courses for the Leyland Group. They should also be required to produce, in the forthcoming Corporate Plan, a Plan for the Leyland Group which evaluates not only the viability prospect of the Group on the present full-range basis, but also evaluates:

- a) a radical restructuring of the truck model strategy, involving a withdrawal from less profitable sectors (probably the light end) which would probably mean the closure of either Bathgate or Leyland (Lancs) whose workforces are 3,700 and 11,400 respectively; and
- b) the dissolution of the whole Group. (This is, of course, on the assumption that the Board do not themselves decide in October to proceed to a partial or full dissolution.)

Option B

35 The alternative course at this stage is to reject the Board's proposal and ask the BL Board to carry out the immediate dissolution of the Leyland Group.

36 In a dissolution, some parts could be expected to survive. We judge that the relatively small but modestly profitable bus manufacturing operation should be salvagable, by virtue of its dominance of the UK market (this is not the same as saying the bus operation could be lived off at the same time as seeking to maintain the truck business: because of shared manufacturing facilities, this would have implications for the viability of the truck business). Some of the profitable overseas operations - Ashok



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 12 -

Leyland and Leyland South Africa, in particular - should also be disposable in a liquidation. But we see, in the present acute cyclical trough in the European and world truck markets, very little prospect of Bathgate or Albion works (in Scotland) being acquired as going concerns; and even the extremely modern and advanced Leyland Assembly Plant in Lancashire is most unlikely to survive. Only asset break-up value can therefore be expected for the greater part of the non-bus UK manufacturing operations, and about 18,500 Leyland jobs are likely to be affected.

37 On this basis we have calculated the cost of this option. The elements of the calculation are:

- assessment of which sectors of the business would close;
- numbers made unemployed in Leyland Group and supplier industry;
- rate at which lost jobs are regenerated;
- unemployment and other benefits;
- other (non-labour) closure costs.

These add up to the public expenditure costs of a closure. To get to the full effect on the PSER, we must add to the above

- lost tax and NI contributions.

38 A summary of the assumptions made on each of these headings is contained in Annex IV. Pulling together all the elements, the closure cost calculation is as follows:

	<u>£m current prices</u>			
	<u>1981/2</u>	<u>1982/3</u>	<u>1983/4</u>	<u>Total</u>
Redundancy costs	30-80	0	0	30-80
Benefit costs	15	20	15	50
Cost of funding IG debt	270	15	0	285
Less net asset realisation	(110)	(40)	(10)	(160)
Public expenditure costs	205-255	(5)	5	205-255
Lost tax revenue and NI contributions	25	35	30	90
Total PSER cost	230-280	30	35	295-345



39 The employment, public expenditure and PSER estimated effects of the Leyland Group closure given above are based on a methodology which is essentially micro-economic in character. It is concerned in particular with the problems of adjustment in a labour market affected by major redundancies concentrated in areas of above average unemployment, and assumes a time profile of unemployment re-absorption elsewhere in the economy. The analysis is partial in that the extent to which the costs of closure given above are avoidable depends on the longer term viability of the Leyland Group which it has not been possible to take into account in view of the interim nature of the Corporate Plan. This micro-economic approach does not incorporate explicitly all the wider economic effects at the macro-economic level, nor does it take account of possible effects on other objectives of Government policy. The current stance of policy is to secure a lasting reduction in the rate of inflation by control of the money supply. This implies a view about nominal incomes and the level of unemployment which is consistent with the development of the economy as a whole. If these consistent levels of both nominal incomes and unemployment are considered to be unique then any action by the Government to avert unemployment at Leyland and its suppliers must result in an offsetting equal number of unemployed elsewhere in the economy. On this alternative view a strategy to "rescue" the Leyland Group within this overall policy stance would result eventually in no net job gains and no related PSER effects.

40 Whilst there is considerable debate on the broad principles concerning how the labour market operates and how the economy in general responds to such actions, in practical terms there are major questions relating to the speed and time profile of the absorption into the labour force; this is where major uncertainties arise. Quantifying all of these effects whilst taking into account the wider nature of policy is likely to be an impossible undertaking. In the earlier exercise on the effects of possible closure of the whole BL Group, a view was taken that re-absorption would be rather slow to take effect. As noted in Annex IV, in this instance the assumptions are slightly different because of the differing scale of the closure. Thus, whilst remaining a partial analysis, it is believed that in this case the labour market might react rather faster and that rather more than one half of the initial addition to unemployment will have been re-absorbed after three years. In the face of the considerable uncertainties this must be regarded as a working assumption and in the nature of a best guess central view about what might happen. Clearly there are arguments for a faster or slower response.

#### Conclusion

41 We share what we take to be the scepticism of the BL Board about the achievability of the Plan put forward by the Leyland Group. It is possible, but we think at best no more than possible, that the BL Board will be able later in the year to put forward a BL Corporate Plan which includes a Plan for the Leyland Group leading to a fair prospect of viability as a full-range commercial vehicle manufacturer.

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

- 14 -



42 But the only radical alternative to deferring judgment which is immediately open to Ministers is to proceed to dissolution. Our assessment is that only a few parts of the Leyland Group-within the UK, probably only the bus operation - would survive as going concerns. The costs of closure in the short term are debatable, depending primarily on the views taken about the effects on aggregate unemployment levels; our calculations, which are based on one view of the operation of the economy, suggest that the first-year PSBR cost could be in the range £230-280m. The Leyland Group's share of the Government's investment of £520m in calendar year 1981 is £100m, of which probably about half remains to be drawn between now and the submission of the new Corporate Plan. The amount "at risk" in deferring judgment (in the sense of money which would not be paid if an immediate dissolution were decided on) is thus very small in relation to the cost of closure calculated on the basis described.

43 There are possible course which lie between a full-range Leyland Group and immediate dissolution: a narrower-range operation, probably based on buses and the larger trucks, could well be the best course. But the Government cannot sensibly prescribe such a course over the heads of the BL Board without having their assessment of its implications by comparison with alternatives. And if the BL Board were asked to make such an assessment and comparison, they could hardly do it sooner than the BL Corporate Plan due for submission in the autumn.

44 We therefore recommend that the BL Board should be told that the Plan they present is acceptable only as a short term operating basis; and that the Corporate Plan to be submitted in the autumn should contain the results of a radical review of the alternative courses for the Leyland Group, including a fully-developed study, with operational plans, of:

- a) the full-range strategy on which the present Plan is based (if BL still wish to pursue this);
- b) a narrower-range strategy based on contracting out of less profitable sectors; and
- c) closure, with disposal of those parts of the business which can be sold.

RECEIVED IN  
SOS FOR  
INDUSTRIAL OFFICE

ANNEX I

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

TELEPHONE  
01-488 6000

1981 V 28 14:49

FROM SIR MICHAEL EDWARDES

28th May 1981

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

*New Secretary of State*

I advised you in my letter of 10th April that the BL Board would be considering a revised 1981 Plan for the Leyland Group. This Plan, details of which are being sent separately to your officials, was considered by the Board at its meeting on 13th May. The Board concluded that it should only accept the Leyland Group Plan pro tem as an operating base for 1981 since, while we are reasonably satisfied with the viability of the operations in India, South Africa, Nigeria, and the Bus operations in the UK, the Board had a number of reservations in respect of Leyland Trucks. This letter is to explain the rationale behind the Board's qualified approval.

You will recall that when we submitted the 1981 Corporate Plan in November last year, the Board was not satisfied with important aspects of management thinking. The truck market in the UK had collapsed in the second half of the year. The then management's response to this offered no realistic hope either of meeting short-term cash commitments or of restoring the business to viability in the longer term. In particular the Board had doubts about the validity of the UK Truck operations proposals on product policy, use of installed capacity and collaboration. We put the Plan on ice while we brought about a change in the leadership for that part of our business.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

28th May 1981

2.

In January of this year we put in place a new management team under the direction of Mr. David Andrews, and at the same time established the Leyland Group, as one of our four business entities. This new team has had to tackle two key priorities; firstly the very serious deterioration in the trading position of Leyland Vehicles Limited, which incurred a PBIT loss of £30.9 million in the first quarter of this year. Secondly, the new team has had to develop a revised Plan.

1981 LEYLAND GROUP PERFORMANCE AND CASH OUTLOOK FOR BL

With regard to the first priority, the problems lie primarily in Leyland Trucks where a vigorous attack on fixed costs has reduced 1981 expenditure, excluding depreciation, from the running rate of £144 million at the end of 1980 to the now forecast £130 million. The benefits of these fixed cost reductions will continue into 1982 (as your officials will see from the revised Plan document) when Leyland Trucks fixed expenses are further reduced to £122 million, even after allowing for inflation. In addition, asset utilisation is being improved by large reductions in inventory. Despite these actions, the severe fall in the UK truck market means that this area of operation will exceed its budgeted cash outflow but taking the Leyland Group as a whole, the projected 1981 cash flow overrun against the original Plan can be limited to a little over £20 million. However, and most important, the Board is satisfied at this stage that for BL as a whole the cash flow outcome for the year will be in line with budget and the Plan approved by Government in January of this year, as a result of offsetting action in other parts of BL.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

28th May 1981

3.

REVISED LEYLAND GROUP PLAN

With regard to the second priority, the new management team has resolved a number of the issues which were of concern when the original Leyland Group 1981 Plan was submitted. Projected sales volumes have been reduced to more realistic levels than those included in the original Plan and fixed costs have been cut back to produce a planned trading breakeven by 1982 for the Group as a whole and in 1983 for Leyland Trucks. The facility plans for the proposed new panel van and light truck range (MT210/211) have been rationalised between the Land Rover and Leyland Groups, involving the projected closure of parts of the Bathgate plant, and this has helped to halve the forecast capital expenditure and working capital requirements for the relevant investment programme.

The attached comparisons of the profit and cash forecasts of the revised Plan with those of the original Plan show that these actions are forecast to speed up the return to viability for the Leyland Group and remain within the cash constraints of the original Plan, even though they take account of a more severe fall in the truck market and consequently lower sales volumes than previously forecast.

Nonetheless, the management team has identified a number of fundamental issues, primarily in respect of Leyland Trucks, which it needs to study in more detail. These include the strategy for tractors (which will be an important factor in opening possibilities for further rationalisation of facilities at Bathgate), the future of gearbox manufacture at Albion, and the strategy for truck distribution in Europe.

The 1983 breakeven position for Leyland Trucks and the subsequent growth of profitability depends upon, on the one hand, achievement of fixed cost reductions to match the anticipated level of business and, on the other hand, increase in volumes of business from a forecast 24,000 truck units in 1981 to the breakeven level of 33,000 units in 1983. This in turn assumes a recovery in the (presently depressed) truck market.

Continued



The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

28th May 1981

4.

While the Board is satisfied that the new management team is taking all possible steps to reduce fixed costs, the Board considers it could not at this time endorse the 1983 Truck sales volumes upon which the Plan for this section of the business rests. The sales are dependent upon increased penetration of overseas markets by recently launched models and a significant pick-up in UK truck demand following the end of the recession. On both these issues, the Board believes it is premature to take a firm view at this time. In the Autumn, the Board believes it will be in a better position to take a view as to the level of confidence it can place upon the Truck Plan.

In addition, the prospects for a major collaborative deal on engine development and manufacture should be clearer by the Autumn, when the current negotiations with Cummins and Case should be in their final stages. The Leyland Group will also be looking for collaborative possibilities on trucks. Sale of the Truck business as a whole is not practicable, with major truck makers like International Harvester and Iveco making huge losses themselves.

#### LEYLAND GROUP 1982 PLAN

The 1982 Leyland Group Plan will address the unresolved issues. If the Leyland Group performance during 1981 demonstrates that Leyland Trucks plans for 1982 cannot be achieved, then the 1982 Plan will examine more drastic alternatives for the UK Truck business including ceasing truck operations altogether or reducing the UK truck product range to cover narrower market sectors.

In the meantime, the Board considers that, given the new management team's belief that the cash and profit targets of the revised 1981 Plan can be met, their Plan should be supported so that they are allowed the time necessary to address the unresolved issues and to show (through the Group's performance in 1981) their ability to achieve targets and to bring the business back on course for recovery.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

28th May 1981

5.

I hope that you will concur with this general line of approach. If you have any questions, we will have the opportunity to discuss them when we meet on 15th June.

Yours sincerely,  
Michael Swann.

Enc:

## LEYLAND GROUP

1981 ORIGINAL PLAN VS. REVISED PLAN

## CASHFLOW

£M	1980	1981	1982	1983	1984	1985	TOTAL
<u>ORIGINAL PLAN</u> a/							
PBIT	(15)	(17)	28	44	58	79	177
Asset (Inc)/Dec.	(65)	(23)	(41)	(47)	(16)	(18)	(210)
Trading Cashflow	(80)	(40)	(13)	(3)	42	61	(33)
Interest	(22)	(24)	(24)	(25)	(26)	(26)	(147)
Extraordinary	2	(5)	(32)	-	-	-	(35)
Tax etc.	(6)	(7)	(8)	(9)	(17)	(23)	(70)
TOTAL CASHFLOW	(106)	(76)	(77)	(37)	(1)	12	(285)
<u>REVISED PLAN</u>							
PBIT	(31)	(73)	21	77	98	131	223
Asset (Inc)/Dec	(46)	8	(50)	(60)	(36)	(58)	(242)
Trading Cashflow	(77)	(65)	(29)	17	62	73	(19)
Interest	(21)	(23)	(24)	(25)	(26)	(24)	(143)
Extraordinary	(7)	(1)	(5)	-	-	-	(13)
Tax etc.	(4)	(5)	(6)	(14)	(23)	(34)	(86)
TOTAL CASHFLOW	(109)	(94)	(64)	(22)	13	15	(261)
<u>REVISED PLAN B/(W) THAN ORIGINAL</u>							
PBIT	(16)	(56)	(7)	33	40	52	46
Assets	19	31	(9)	(13)	(20)	(40)	(32)
Interest	1	1	-	-	-	2	4
Extraordinary	(9)	4	27	-	-	-	22
Tax etc.	2	2	2	(5)	(6)	(11)	(16)
TOTAL B/(W)	(3) b/	(18) b/	13	15	14	3	24
	=====	=====	=====	=====	=====	=====	=====

MEMO:

Revised Plan  
 PBIT/Assets employed (7.5) (16.9) 4.6 15.2 17.7 21.8

a/ Original Plan adjusted for organisational changes

b/ Cumulative shortfall of £21M in 1981 cash position



## LEYLAND GROUP

## SUMMARY OF ACTIVITIES

1. The Leyland Group was formed at the end of 1980, being largely a recomposition of the previous British Leyland Commercial Vehicles organisation, but excluding Alvis and Coventry Climax. It comprises seven consolidated companies, together with management responsibility for a further two companies and trade interests in Turkey and Iran. Total turnover in 1980 was £808m.
2. Leyland Vehicles Ltd is the largest company in the Group, with a 1980 turnover of £443m, and 21,000 employees. Manufacturing activity is concentrated in the North West and Scotland. The Company specialises in the manufacture of truck and bus chassis/running units and in 1980 held 17% of the UK truck market and, including BM (H), 69% and 42% of the double and single deck bus markets respectively. Leyland Vehicles is split into 3 management units: Truck, Bus and Parts.
3. Leyland Bus is responsible for all aspects of the Bus interests within Leyland Vehicles. These comprise BM(H) - a jointly owned company with the National Bus Company - and DAB. BM(H) comprises four plants. Bus chassis are assembled at Bristol, and bodied at Leeds and Lowestoft. Integral double and single deck chassis are produced at Workington. DAB is a wholly owned subsidiary of BL based in Denmark specialising in chassis and bus body building.
4. Self Changing Gears Ltd. is a small company specialising in the design and manufacture of gearboxes. Some of its major products are based on LVL designs and its major customer has been BM(H).
5. Ashok Leyland Ltd, a 50.6% owned subsidiary in India, manufactures trucks and buses, holding 27% of the Indian truck market. Emnore Foundries Ltd is the major supplier of castings to Ashok.
6. Leyland South Africa, a wholly owned subsidiary, specialises in the manufacture of commercial vehicles and Land Rovers, and imports and sells BL cars.
7. BL also has a major interest in Leyland Nigeria Ltd. This company commenced trading in January 1980, and will concentrate on the assembly (and eventual manufacture) of LVL's export models T68 and T43, as well as Land Rover, Range Rover etc.

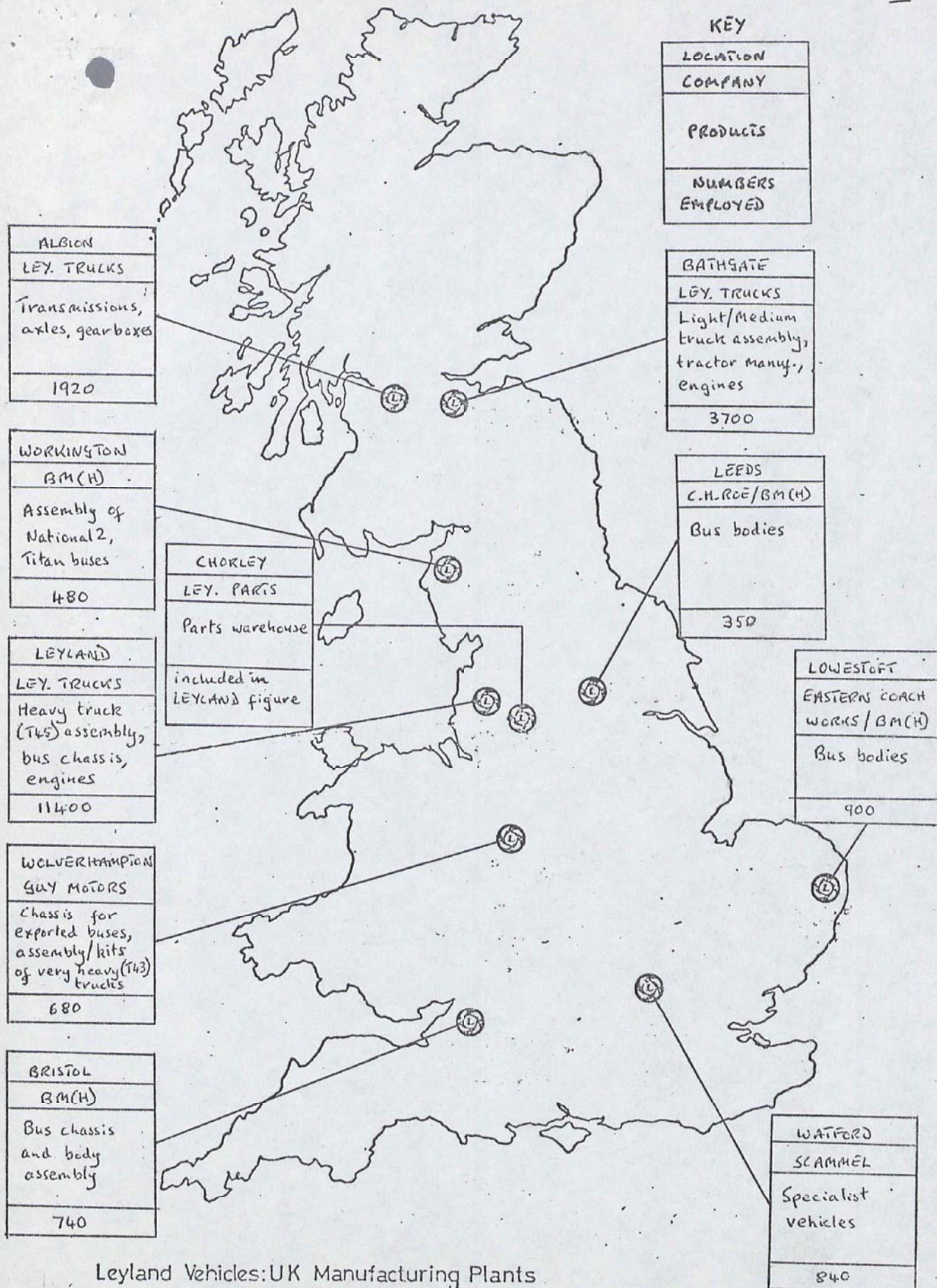


## LEYLAND GROUP

## SUMMARY OF PERFORMANCE

	1981	1982	1983	1984	1985
1981 REVISED PLAN					
Sales Revenue £m	737	1032	1297	1545	1763
PBIT £m	(74)	21	77	98	131
Working Capital £m	182	192	233	255	292
Capital Expenditure £m	68	88	73	68	79
Total Cashflow £m	(94)	(64)	(22)	13	15
Sales Volumes '000	50	64	70	79	82
Return on Assets %	(17)	4	14	17	21
Manpower '000 (UK and Overseas)	34	39	41	43	45
1981 ORIGINAL PLAN					
Sales Revenue £m	1010	1140	1350	1550	1710
PBIT £m	(5)	31	45	63	95
Working Capital £m	233	237	275	292	307
Capital Expenditure £m	101	96	81	71	77
Total Cashflow £m	(65)	(86)	(58)	(10)	18
Sales Volumes '000	52	60	64	72	81
Return on assets %	(1)	6	8	10	14
Manpower '000 (UK and Overseas)	39	39	39	41	43

Note: The figures quoted above are not strictly comparable because the 1981 original plan placed Alvis and Coventry Climax in the Leyland Group. Some of the key financial indicators are given on a comparable basis in the attachment to Sir Michael Edwardes' letter of 28 May 1981, which is at Annex I.





## ANNEX III

ECONOMIC ASSUMPTIONSMAIN CASE

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Gross Domestic Product	-3.0	0	1.0	1.5	0.5
Manufacturing Output	-6.0	-2.0	-1.0	-0.5	-1.0
Effective Exchange Rate	100	95	92	90	88

"OPTIMISTIC" CASE

GDP	-3.0	1.5	2.5	2.0	1.5
Manufacturing Output	-5.0	4.0	5.0	1.0	2.0
EER	95	82	81	81	78

"PESSIMISTIC" CASE

GDP	-3.5	-2.5	-0.5	0	0.5
Manufacturing Output	-8.0	-7.0	-4.0	-2.0	-1.0
EER	103	108	107	106	104

The above assumptions have been prepared by BL for their 1982 Corporate Plan exercise, and have been used as the basis for the revised Leyland Group 1981 Plan.



LEYLAND GROUP: EFFECTS OF CLOSURE

1. The main elements of the calculation of the effects of closure are set out in paragraph 32 of the main paper, and some qualifications in paragraphs 39 and 40. The following micro-economic analysis is based on the problems of adjustment, particularly in the labour market, associated with major redundancies concentrated in areas of above average unemployment. A full micro-economic analysis of closure effects would need to take into account the likelihood of the continued viability of the Leyland Group. While there will undoubtedly be employment losses following a closure now of all or part of the Leyland Group, these losses would be unavoidable if the Leyland Group proved to be unviable. In that event, the resource and public expenditure costs would be higher than we have calculated to the extent that resources devoted to the Group in the interim could have been used more productively elsewhere in the economy. Given the interim nature of the Leyland Group Corporate Plan, it has not been possible to take a definitive view of the longer term viability of the Group. Consequently the following assessment of closure costs is partial only and is examined in public expenditure and PSBR terms as magnitudes of interest in their own right.

Assessment of which sectors would close, and numbers made unemployed

2. We have assumed that Leyland Group's overseas operations (of which the most important are Ashok Leyland in India and Leyland South Africa) would continue, as well as the UK bus manufacturing business, because of its dominance in the UK bus and coach market. So the jobs at risk in the UK Leyland Group total 18,814. Closure of the Leyland Group could have an effect on the future of the Sherpa van - which is marketed as a truck though in the Land Rover Group - but the extent of this (from lost sales to complete unviability) is uncertain and it is therefore not included.

3. Employment at risk does not end here since there is the associated employment, both direct and indirect, in supplier industries. For BL Cars it was estimated, on the basis of input-output analysis and data on the cost structure, that for every person employed in the car companies there is a further person employed, directly and indirectly, in suppliers' firms; this is the 1:1 BL Cars supplier employment ratio. From a comparison of cost structures for BL Cars and Leyland Vehicles (ie the UK truck business) which imply greater dependency of Leyland Vehicles on supplier inputs, we have concluded that the appropriate Leyland Vehicles/supplier firms employment ratio is 1:1.25. Consequently, closure of Leyland Vehicles would place around 23,500 jobs at risk in supplier industries. Finally, we have estimated that UK manufacturers can be expected to take up around 75% of lost Leyland UK sales. It is extremely difficult





to assess the likely take-up of Leyland's exports by other UK manufacturers -- a range of 0-50% is possible; we have assumed 25%. On these assumptions, the total job loss due to closure of Leyland Vehicles is:

Leyland Vehicles	18,800
Suppliers' effects (x1.25)	23,500
	<hr/> 42,300
<u>Less</u> take-up of employment by other manufacturers and suppliers	21,250
	<hr/> 21,050

Rate at which lost jobs are re-generated

4. It is difficult to make assumptions concerning both the scale and speed with which any replacement of the net job losses might take place. Unlike the BL Cars closure analysis where no net replacement in the first two years was assumed, here it is felt that the smaller scale of redundancies, their location and the particular skill groups affected, require rather different, less pessimistic, assumptions. The closure would not be dissimilar in size and concentration to possible closures examined by the Department of Industry under Sections 7 and 8 of the Industry Act 1972. Currently for these cases, it is assumed that there will be net job replacement of 37% in year 1 rising to 51% in year 3. For Leyland Vehicles, these assumptions may prove to be at the optimistic end of the range -- but we regard them as sufficiently well-founded to be a useful indication. The implication of this is that the jobs lost in year 1 due to closure of Leyland Vehicles would be around 13,250. By year 3 the figure could fall to 10,300.

Unemployment and other benefits, and PSBR costs

5. The cost of this level of unemployment to the Exchequer consists of:

- redundancy payments. We have assumed that the Government would meet the total statutory redundancy payment cost, as it does in cases of insolvency (ie both the employers' and the Redundancy Fund contributions). If the Government were also to make extra-statutory payments (as was assumed in the BL Cars analysis), this would triple the redundancy cost. The allowance made for redundancy payments to suppliers' employees includes some provision for cases of insolvency;
- social security benefits (standard assumptions about eligibility were made);
- lost tax and NI contributions (again, standard assumptions were made).



Other (non-labour) costs

6. Other costs arise because of the possible need to repay some or all of the Leyland Group's debt, from which can be subtracted the proceeds of disposing of assets, net of any closure costs and penalty clauses. The debts directly attributable to Leyland Vehicles at present amount to some £195m of which the main part (£140m) is trade credit.

7. In addition it is highly probable that BL itself would face demands for the repayment of some £90m of loan stocks and foreign bonds. This would result in a total demand on BL of some £285m, on the assumption that the closure of Leyland Vehicles was orderly and carried through with the co-operation of BL's bankers in such a way as to avoid alarming BL's creditors. Assuming that trade creditors would require repayment in year 1 and that Government guarantees were available to enable a spread of repayments over several years, the profile of debt repayment could be £270m in year 1 and £15m in year 2. It may be possible for BL to re-finance the term element of its debt (£90m); but we regard this as unlikely, given the extent of existing private sector exposure to BL.

8. Estimating the proceeds for disposal of UK assets is difficult, given the problems of disentangling the UK bus operation from the rest. A crude estimate of UK asset disposal proceeds (mainly stocks and work-in-progress) would be £100m in year 1; £40m in year 2; £10m in year 3.

9. In addition to the obviously attractive businesses of Ashok, Leyland South Africa and bus manufacturing, it is possible that some parts of the Leyland Group in the UK could be sold. We think it unlikely - given the state and prospects of the commercial vehicle industry worldwide - that these other assets would fetch more than their break-up value - which is included in the figures given in paragraph 8. A rough estimate of the proceeds of the sale of overseas assets is £10m. Disposal proceeds of the UK bus business are also included in the figures given in paragraph 8: because of the difficulty of isolating the bus manufacturing assets, we have assumed proceeds would amount to the break-up value alone. It must be noted that the dependence of the bus business on the truck manufacturing side is such that splitting the two could prove very difficult. We have no basis on which to assess whether the proceeds would improve or deteriorate if the disposal were postponed until, say, the autumn.

Effect on unemployment levels

10. The most marked increase in unemployment rates will occur in the Bathgate and Preston Travel-to-Work Areas, where unemployment could rise from the May 1981 figure of 16.8% in



CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

-4-

Bathgate to 22.8%, and 10.5% in Preston to 16.6%. These rates compare with the May averages for all Development Areas and Special Development Areas of 13.7% and 15.6% respectively. There has already been considerable pressure for the upgrading of Bathgate to SDA and an increase of this order would clearly increase the pressure; SDA status would, it is estimated, cost about £0.1m per annum in additional Regional Development Grants. Preston is due to lose its IA status in August 1982 and it is not one of the TTWAs for which there has so far been much pressure for retention of AA status, but an unemployment rate significantly above the SDA average would clearly bring pressure not only for retention of AA status but for upgrading to DA; it is estimated that this would cost £3-4m per annum in RDGs. These figures have not, however, been included in the overall costs of closure, which are summarised in paragraph 38 of the main paper, because they will only be incurred if the pressures referred to above for regrading are accepted.

Department of Industry  
7 July 1981



BL'S REVISED FINANCIAL FORECASTS FOR 1982 AND 1983

NOTE BY DEPARTMENT OF INDUSTRY OFFICIALS

The Chairman of BL wrote to the Secretary of State on 3 July enclosing schedules showing the outlook for BL's profits, cash flow and the major balance sheet items including Government funding in 1981-83 compared with the forecasts in the 1981 Corporate Plan. The profit and cashflow forecasts are also broken down into BL's four main business groups. The Chairman's letter and enclosures are annexed to this note.

2. The forecasts show BL making a total loss of £476 million compared with £420 million in 1981 (a larger divergence in the figures for loss before interest and tax is offset by lower exceptional costs), of £321 million compared with £230 million in 1982, and £65 million compared with £11 million in 1983. However, cash outflow is forecast to be £47 million better than planned in 1981 and the same as planned in 1982 and 1983. Government equity funding is still forecast at £520 million in 1981, £420 million in 1982 and £150 million in 1983. In terms of Government financial years, this still means £620 million in 1981-82, £370 million in 1982-83 and £100 million in 1983-84. (A last tranche of £50 million was forecast in the 1981 Plan as the requirement in 1984, and this would score as £50 million in 1984-85). BL do not envisage any increase in this requirement.

3. BL's borrowings are now forecast to fall slightly in 1981 compared with the Plan and to be level with those planned in 1982 and 1983. Deterioration in the cashflow projections of the 1981 Plan has been avoided mainly by further planned improvements in the utilisation of working capital (down by £200 million in 1983). However, fixed assets are also cumulatively £95 million lower than planned by 1983, mainly as a result of trimming capital expenditure programmes. Sir Michael Edwardes has assured the Secretary of State that this is not affecting major programmes.

4. The revised forecasts take account of the corrective action announced by BL in May 1981 (including the earlier than planned closure of Solihull). Plant closures will entail once-for-all costs in 1981 and 1982, but will also bring savings in



operating costs of £20 million a year from the main actions alone.

5. The revised forecasts are based on the assumption of sterling at an index of 100 in 1981 against a basket of currencies (compared with 94 in the Plan). The value of sterling has in fact recently fallen to 93 in terms of this index, and the average so far this year is around 99. This cautious assumption (which carries over into the later years) should help BL to achieve their forecasts for losses and cash outflow. BL say that if the economic assumptions in their 1981 Plan had been fulfilled, the company's losses would have been broadly in line with the forecasts in that Plan, and could have been bettered as a result of the remedial actions they are now taking. This is because key physical indicators in the cars business, such as market share and productivity, are in line with the targets in the 1981 Plan.

6. In the schedule showing the breakdown of the projections by groups, BL Cars' losses before interest and tax are forecast to be £108 million greater over the period 1981-83 than in the 1981 Plan, but cash outflow is £59 million lower than planned in 1981 and in line with the Plan in 1982 and 1983. The Leyland Group's losses show a £57 million increase on the Plan in 1981, but profits are only £5 million lower in 1982 and £33 million higher in 1983 (cashflow also improves). The profits and cashflow of the Land Rover and Unipart Groups show a deterioration in 1981 followed by improvements in 1982 and 1983. BL remain of the view that it will be possible to inject substantial amounts of private capital into these two businesses in 1983.

Department of Industry

7 July 1981

TELEPHONE  
01-486 8000

35-38 PORTMAN SQUARE

RECEIVED IN  
S.O.S. FOR  
INDUSTRIES OFFICE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

3rd July 1981

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

1981 JUL 2 16:44  
*Dear Secretary of State,*

At our meeting on 15th June I undertook to let you have an indicative view of the prospects for 1982, as we see it at present in advance of the 1982 Corporate Plan.

I attach schedules showing the outlook for PBIT, cash flow and the major balance sheet items including Government funding, compared in each case with the forecasts in the 1981 Plan. The PBIT and cashflow forecasts are also broken down into our four main business groups. Indicative figures for 1983 are included so that you can obtain a broader view of our path towards recovery, and in particular towards a breakeven position in 1983/84 - as requested in your letter of 2 July

As indicated in recent discussions with you, there will be a shortfall in profit before interest and tax compared with the 1981 Plan, but this need not prejudice our recovery, particularly as we expect to be able to hold the cash outflow to the level already agreed with you. This shortfall in PBIT is in line with the deterioration in the economic environment and the exceptionally severe fall in the UK truck market. Both car and truck exports have been inhibited by the strength of sterling, which at the time of writing shows signs of easing. This more realistic value of sterling, which is not reflected in the assumptions we have made in the attached schedules, adds credence to the estimates for PBIT and cash outflow. I must stress that the control of cash to the level envisaged in the 1981 Plan is despite the cost of further streamlining actions to be undertaken in 1981 and 1982 which will ensure that we achieve the breakeven in 1983/84.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

3rd July 1981

2.

For example, the bringing forward of the Solihull closure from 1985/86 to Spring 1982 will add to cash outflow in 1982 by at least £5 million, but it will produce an operating cost saving of £8 million per annum; similarly, our foundry rationalisation (brought forward from 1982/83 to September 1981) will have a one-off cost of £4 million but generate £3 million per annum of cost savings subsequently; and the current Jaguar programme of 1,400 redundancies will entail an initial cash outflow of some £4 million but will save £9 million per annum in operating costs.

Deterioration in the cash flow projections of the 1981 Plan has been avoided mainly by further planned improvements in the utilisation of working capital. We are on target for our revised forecast of the level of working capital at the end of 1981, having successfully prevented any absolute increase in our working capital during the first five months of the year, despite inflation and the need to avoid excessive delivery times for our new models.

I must emphasise that these forecasts are essentially 'desk-top' calculations and are not, of course, based on the detailed work which is being done in preparation for the 1982 Corporate Plan. They are therefore subject to considerable margins of error.

There are many sources of risk, both internal and external, which the Board believes may hinder the achievement of our recovery strategy. As we have stressed on previous occasions, success in the Government's handling of the economy (including issues such as public sector pay which are within its control) is a major determinant of BL's future prospects. If the economic assumptions in our 1981 Plan had been fulfilled, our PBIT for 1981-83 would have been broadly in line with our forecasts in that Plan - and could have been bettered as a result of the remedial actions we are now taking.

Continued





C

EL LIMITED  
 PROFIT AND CASH OUTLOOK  
 1981 - 1983  
 (amount in f millions)

	1981		1982		1983	
	Plan	F'cast	Plan	F'cast	Plan	F'cast
<u>Cashflow In/Out</u>						
<u>PBIT</u>	(157)	<u>(283)</u>	( 19)	<u>(107)</u>	134	<u>81</u>
Interest, Tax etc.	(123)	(123)	(120)	(120)	(123)	(123)
Exceptional items	(140)	( 70)	( 91)	( 94)	( 22)	( 23)
<u>Total Earnings/loss</u>	(420)	(476)	(230)	(321)	( 11)	( 65)
Movement in Assets	(224)	(121)	(286)	(195)	(278)	(224)
<u>Total Cashflow</u>	<u>(644)</u>	<u>(597)</u>	<u>(516)</u>	<u>(516)</u>	<u>(289)</u>	<u>(289)</u>
<u>Financing</u>						
New Equity	520	520	420	420	150	150
Less duty etc.	( 7)	( 7)	( 6)	( 6)	( 1)	( 1)
Borrowings -						
Short Term	(113)	(143)	( 7)	( 7)	36	36
Long Term	219	204	84	84	78	78
Leasing	21	19	20	20	20	20
Other	4	4	5	5	6	6
<u>Total Financing</u>	<u>644</u>	<u>597</u>	<u>516</u>	<u>516</u>	<u>289</u>	<u>289</u>

BL LIMITED  
 BALANCE SHEET PROJECTION  
 1981 - 1983  
 (Amounts in £millions)

	1981		1982		1983	
	Plan	F'cast	Plan	F'cast	Plan	F'cast
<u>Assets Employed</u>						
Fixed Assets	1007	980	1186	1095	1326	1231
Working Capital	757	634	864	714	1002	802
Total Assets	<u>1764</u> =====	<u>1614</u> =====	<u>2050</u> =====	<u>1809</u> =====	<u>2328</u> =====	<u>2033</u> =====
<u>Financed By</u>						
Opening Share Cap/ Reserves	742	648	835	685	1019	778
New Share Cap(net)	513	513	414	414	149	149
Changes in Reserves	<u>(420)</u>	<u>(476)</u>	<u>(230)</u>	<u>(321)</u>	<u>( 11)</u>	<u>(65)</u>
Total Share Cap/ Reserves	835	685	1019	778	1157	862
Borrowings -						
Short term	383	378	376	376	411	411
Long term	434	434	518	518	596	596
Leasing	80	80	100	100	120	120
Other	32	37	37	37	44	44
Total Financing	<u>1764</u> =====	<u>1614</u> =====	<u>2050</u> =====	<u>1809</u> =====	<u>2328</u> =====	<u>2033</u> =====

FLF/AJG  
 12th June 1981

BREAKDOWN BY GROUP OF PROFIT AND CASH OUTLOOK

( Amounts in £ Millions )

	1981		1982		1983	
	<u>Plan</u>	<u>F'Cast</u>	<u>Plan</u>	<u>F'Cast</u>	<u>Plan</u>	<u>F'Cast</u>
<u>PBIT</u>						
Cars	(186)	(210)	(110)	(163)	-	(31)
Unipart	15	6	25	21	34	30
Leyland Group	(17)	(74)	26	21	44	77
Land Rover	25	2	36	15	53	32
Others	7	4	6	6	9	9
Consolidation & Contingency	(1)	(11)	(2)	(7)	(6)	(36)
 	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	(157)	(283)	(19)	(107)	134	81
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
 <u>CASHFLOW</u>						
Cars	(467)	(408)	(364)	(360)	(220)	(220)
Unipart	(6)	(34)	(8)	(3)	(3)	(7)
Leyland Group	(76)	(95)	(77)	(64)	(37)	(22)
Land Rover	(35)	(38)	(35)	(37)	4	(5)
Others	(25)	(9)	(26)	(26)	(19)	(19)
Consolidation & Contingency	(35)	(9)	(6)	(26)	(14)	(16)
 	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	(644)	(597)	(516)	(516)	(289)	(289)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

THE THREE CASES

The main elements of the three cases are described below and the relevant data given in the attachments to this paper:-

NOT  
ATTACHED

- Attachment 1 - The Main Case
- " 2 - The High Sterling Case
- " 3 - The Low Sterling Case

The Main Case

This is considered to be the most likely. For 1981, it is forecast that sterling will depreciate somewhat by the end of the year. No Autumn Budget is assumed. Economic activity is likely to continue to decline through the year with the average GDP still forecast to be 3% below 1980.

By Spring 1982, either the three years of government policies will be presented as having worked or political pressure could warrant a change of direction. However, any stimulus will be hesitant and mild. This reflation will coincide with some relaxation of fiscal and monetary restrictions in other OECD countries. It is therefore unlikely that sterling will depreciate to any significant extent during the course of 1982. Economic activity is assumed to pick up in the second half of 1982 leaving the average level of GDP unchanged from that in 1981, but manufacturing output is forecast to decline by 2%. Inflation does not fall further.

Over the medium term 1983-86, the main case assumes that cautious monetary and fiscal policies continue giving a modest 1% pa average GDP growth. Inflation stabilises at around 9-10%. A fairly stable real exchange rate is projected. The losses in competitiveness during the 1978-81 period will not be regained. The stable real exchange rate and low level of total final demand will lead to continuing small losses in UK manufacturing output.

High Sterling Case

This case assumes that present policies are continued without adjustment and that failure to meet the targets leads to more deflationary measures. The real taxation burden is assumed to increase again in 1982 to lower the PSBR. Sterling is then expected to remain steady in 1981 and rise in 1982 as other OECD economies reflate demand. Inflation is forecast to average 11% in 1981 and 9% in 1982.

The recession is forecast to continue through 1982 with manufacturing output hardest hit. GDP growth in 1982 is -2.5% after -3.5% in 1981. From 1983 the economy runs fairly flat, with manufacturing output continuing to decline, though at a decreasing rate. The real exchange rate stabilises at around the high level of 1982. Inflation remains low at around 7%.

### Low Sterling Case

This assumes fairly strong expansionary policies over the course of the next two years, with an Autumn Budget in 1981 giving help to the corporate sector through cuts in National Insurance surcharge and effective energy prices.

The Spring 1982 Budget is then forecast to give large boosts to investment and consumption demand - increases in public sector capital programmes and tax cuts. The measures induce a fairly strong depreciation in sterling.

This 1982 reflationary package has the biggest impact on demand in 1983 when consumption is forecast to increase by 4%. However, with import leakages, GDP growth is limited to 2.5%. Manufacturing output continues to improve although the losses of 1980 and 1981 are not regained until 1986. GDP growth averages just under 2% during 1983-86 after +1.5% in 1982 and -3% in 1981. Inflation is forecast to increase in 1982, averaging 14% in the year but stabilising by 1984 at 10% pa.

### Competitiveness

In the Main Case overall UK competitiveness (measured by relative retail price inflation) is forecast to deteriorate further in 1981 because of the strength of sterling against the EMS currencies. The level of uncompetitiveness is forecast to improve only slightly (4% points) from 1981, and remain worse than the 1980 position over the Plan period.

For the High Sterling Case, UK competitiveness is significantly worse than the Main Case. For the Low Sterling Case, the reverse applies.

Note that the competitiveness indices against each country are based on national retail inflation forecasts and the composite 'effective' competitiveness index is a trade-weighted measure based on UK trade pattern. Implications for BL's competitiveness will of course depend also on specific cost and competitive trends in the world motor industry as well as on the trade patterns for the products of each of BL's groups and their competitors.



Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB  
 TELEPHONE DIRECT LINE 01-2123301  
 SWITCHBOARD 01-212 7676

2 July 1981

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 HM Treasury  
 Parliament Street  
 London SW1

copies to  
 PS/Mr Tebbit  
 PS/Mr Marshall  
 PS/Secretary  
 Mr Steele  
 Mr Mountfield  
 Mr McFetrich  
 Miss Bowe  
 Miss Spencer  
 Mr Bowder

*San B. King*

BL'S FINANCIAL POSITION

Thank you for your letter of 9 June agreeing that I should tell Michael Edwardes that the Government accepts the BL's Board's decision not to review the 1981 Corporate Plan as a whole. I have also seen Robin Ibbs' letter of 15 June. It is certainly intention that our consideration of the Leyland Group Plan will be based on a review of that Group's operations in which all options will be considered.

2 I agree with you that we should look for early warnings that the £370 million allocated to BL for the financial year 1982-83 may prove to be inadequate unless early corrective action is taken. I therefore asked Michael Edwardes when I met him on 15 June to let me have revised financial forecasts for BL as a whole for the years 1982 and 1983. He agreed to do this, and I understand that the figures will be available shortly. Officials of the various Departments involved in the current review of the Leyland Group Plan will therefore be able to cover the current position and prospects of BL as a whole in the report which will be submitted to me (and which I shall circulate to colleagues) early in July. This will enable us, as you suggest, to take stock of the affairs of BL as a whole when we meet to consider the officials' report.

3 You commented in your letter on the more adverse economic assumptions which have recently been discussed between officials and BL economists. I think it is worth pointing out that these more adverse assumptions are fully reflected in the financial projections for 1981 as a whole which are discussed with the company each month by officials of this Department and the Treasury. I would expect that the revised financial forecasts (for 1982 and 1983) which BL are currently preparing will take account of these assumptions.



4 Turning to the other matters in your letter, the future of Jaguar is to be reviewed by the BL Board both in July and September. Accordingly I do not think this is something which I need to take up specially with BL at present. Norman Tebbit and I discussed with Michael Edwardes on 18 June the possibility of early disposal of Land Rover. Michael Edwardes is still firmly of the view, for the reasons which he gave us last January, that disposal is not possible this year or in 1982. However, he considers that it might be possible to inject private capital into Land Rover, Unipart and Jaguar in 1983. He has also recently sought my approval for the disposal of Alvis at a price of £27 million. Officials are considering this proposal urgently. I should, of course, point out that the Government's agreement to this disposal would not reduce the level of Government funding of BL required in 1981-82, as the disposal of Alvis was assumed in the 1981 Corporate Plan.

5 I am sending copies of this letter to the Prime Minister, Jim Prior and Robin Ibbs and to Sir Robert Armstrong.

*Yours*

*Keir*



Secretary of State for Industry

Sir Michael Edwardes  
BL Limited  
35-38 Portman Square  
London, W1H 0BN

copies to  
PS/Mr Tebbit  
PS/Mr Marshall  
PS/Secretary  
Mr Steele  
Mr Mountfield  
Mr McFetrich  
Miss Bowe  
Miss Spencer  
Mr Bowder

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

2 July 1981

*Sir Michael*

Further to my letter of 15 April, I am writing to let you know that I have consulted my colleagues and we have now agreed that the Government should accept the BL Board's decision not to review the 1981 Corporate Plan as a whole at this stage.

However, as I mentioned to you at our meeting on 15 June, the Government would like to have fresh financial forecasts for BL as a whole, broken down by Groups, for 1982 and 1983 in order to be able to assess whether, despite the increased losses forecast for 1981, the company is still on course for recovery. It would also be helpful to know whether the further equity funding requirement of £150 million in 1983 and 1984 identified in the 1981 Plan remains valid.

*Ernie*

*Kew*



Cowlin

23 June 1981

MR LANKESTER

see below

cc Mr Hodges

BL

1. I spoke to DoI officials (John Bowder - AS) and discovered that Sir Keith accepts the Chancellor's view that there should be a discussion soon of BL's prospects as a whole.
2. I was also told that Sir Keith misses no opportunity to remind Michael Edwardes of the Government's wish to see progress on disposals as rapidly as possible. A small disposal is coming up soon, but Edwardes doesn't think there is scope to move on the bigger disposals quickly.
3. Sir Keith has asked Edwardes for more information on the prospects for the group as a whole. This will be incorporated in the report by officials on the commercial vehicle business, so as to put that problem in context. *The new information is allegedly reassuring.*
4. This report will be available in early July. DoI naturally would much prefer a meeting to take place on the basis of this report. It could then consider:
  - (a) the whole business; and
  - (b) commercial vehicle business.
5. On balance, I think we should wait for this report for the meeting. It isn't completely clear to me whether the Prime Minister wishes to chair it, but I suppose that is the implication of her note. *I hope she will.*

*AD*

ANDREW DUGUID

*11 AM*  
*arranged for 16.30*  
*on Monday 13 July.*  
*They all asked*  
*if there wd be*  
*2 papers.*  
*cf. 26/6*

*Mr. would you fix I know*

*meeting for PM*  
*KJ*  
*GH*  
*RTA*  
*R lbs*  
*J Hodges*

*in mid-July TL.*

PRIME MINISTER

BL

1. Last year the cost of continued support for BL soared. No progress was made on selling the company. Despite this, in the end it was reluctantly decided to support BL once again - with the proviso that a mid-summer review might be necessary if it went off course.

*Play A*

2. Keith has now written to Geoffrey saying that BL is off course. Since Edwardes has taken some corrective action, Keith says that a full-scale review is not now necessary. However, the commercial vehicles side of the business still needs review as its plans were not available last January.

*Play B*

3. Geoffrey has replied by expressing unease and suggesting that instead of a full review, we should "re-examine BL's prospects between ourselves" when we look at the commercial vehicle plans.

4. Any reconsideration of BL's prospects would face us with the same difficult issues that we faced last time. But in the next few months, we could be in a stronger position to oblige Edwardes to make further disposals if he has not found a partner. In particular:

- (a) Nissan may have decided to come to the UK, making the future of car and component production here less dependent on BL.
- (b) Metro has already done better than expected. This weakens Edwardes' argument that BL could not make further disposals without precipitating its immediate collapse.

5. If you think there is a chance of making further progress on BL, we think a meeting between you, Geoffrey and Keith should take place before decisions are reached on the future of the commercial vehicle business.

*Meeting. We must take the opportunity now to dispose of B.L.*

*you wish to take a meeting; or leave it to the chairman?*

JOHN HOSKYNS

*JL 15/6*



cc Ingrid  
Worpan  
Sutton

**CABINET OFFICE**  
*Central Policy Review Staff*

With the compliments of  
J. R. Ibbs

70 Whitehall, London SW1A 2AS  
Telephone 01-233 7765



*J. R. Ibbs*

*ind pd*

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

*N.*

From: J. R. Ibbs

Qa 05391  
CONFIDENTIAL

15 June 1981

*Dear Secretary of State,*

BL's Financial Position

I have read the Chancellor of the Exchequer's letter of 9 June to you about BL's worsening profit position.

I share his concern that the reduced profit forecast for 1981, and problems in certain parts of the group, may create a cash requirement in excess of the £370 million allocated for 1982/83. I agree that it would be appropriate to take stock of BL's overall financial prospects when the Leyland Group Plan is reviewed.

At this time, it would also be relevant to take a first look at the financing requirements beyond 1982/83. The 1981 BL Corporate Plan showed a further equity funding requirement of about £150m. in 1983 and 1984. This requirement may well be increased if volume and working capital, after the reduction in 1981/82, build-up again to the levels forecast in the present Plan, and we ought to have as much warning as possible about this.

As the Chancellor suggests, it is not appropriate to review the full BL Corporate Plan immediately, but corrective strategy changes must be incorporated in the 1982 Plan. Since BL's position appears to be deteriorating I think you should insist that the Plan is produced in good time.

I am sending copies of this letter to the Prime Minister, the Chancellor and the Secretary of State for Employment, and to Sir Robert Armstrong.

*Yours sincerely,*  
*J. R. Ibbs*

J R Ibbs

The Rt Hon Sir Keith Joseph Bt MP

B  
1 and 101

cc Duggan  
Walker  
Wright



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

9 June 1981

The Rt. Hon. Sir Keith Joseph, MP.,  
Secretary of State for Industry

*Dr Keith*

BL's FINANCIAL POSITION

In your letter of 22 May you sought agreement that you should write to Sir Michael Edwardes saying that the Government accepts the BL Board's decision not to review the 1981 Plan as a whole, but that we are prepared to review the activities and prospects of the Leyland Group on the basis of the Plan for that Group now to be put forward. In the meantime we will continue to monitor BL's performance and revised forecasts closely.

I am content that you should proceed as you suggest on the understanding that our consideration of the Leyland Group Plan will be in effect a review of that Group's operations in which all options will be considered.

At the same time I feel bound to say that I am uneasy about the way in which things seem to be developing. Each of the major components of the BL Group appears to be facing difficult problems, some of them unique to that area, but some relevant to the company as a whole. It must follow there is a high risk of cumulative failure as weaknesses in one area are transmitted to other parts of the BL Group. While therefore I am prepared to accept that we should not argue for an immediate review of the Corporate Plan, I do feel that we should now re-examine the BL situation and prospects between ourselves. Halfway through 1981 is a good time to do this, partly as a basis for our approach to the 1982 Corporate Plan. There is the question of the future of Jaguar, for example, as well as the possibility of early disposal of Land Rover which deserves another look. More important, I think is that in spite of Michael Edwardes' assurance that he will manage on the £990 million for this financial year and the next, we should, I think, look for early warnings that the £370 million allocated for 1982-83 may prove to be inadequate unless early collective action is taken. There can be no question of our agreeing to anything more. I understand that the discussions between officials and BL economists, which took place recently, suggested that the basic economic assumptions on which the 1981 Corporate Plan, and therefore the financial requirement for

vr?

CONFIDENTIAL



1982-83 are based, look much less favourable to BL than was the case last year. The implications of these changes have yet to be fully reflected in the figures.

A suitable opportunity to take stock would be when we consider the officials' report on the Leyland Group Corporate Plan. We might then take the opportunity to look at BL's prospects as a whole as well as the state of play. I would be very glad to chair such a meeting if you agree.

I am sending copies of this letter to the Prime Minister, Jim Prior, Robin Ibbs and to Sir Robert Armstrong.

*y* —  
*from* —

GEOFFREY HOWE

CONFIDENTIAL



Secretary of State for Industry

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*Jan Gusty,*

#### BL'S FINANCIAL POSITION

Thank you for your letter of 5 May. I have been considering BL's prospects further in the light of your views, those of the Prime Minister (recorded in her Private Secretary's letter of 27 April) and my meeting with Michael Edwardes on 12 May.

2 Before I saw Michael Edwardes, I had seen BL's results for the period up to the end of March. These showed that, for the year to date, losses were about 20% above budget, but that the company was well within its budgeted cashflow. The forecast for the year-end was for losses of £283 million, £140 million worse than budget but a slight improvement on the previous month's forecast. BL now believe that they will be able to stay within their cash flow budget, principally by savings on working capital and to a minor extent by savings on fixed capital.

3 These forecasts do not take full account of the recently announced corrective action in the Cars Group, the main elements of which are the transfer of assembly of the Rover saloon to Cowley and closure of the Solihull car (but not Landrover) plant in April 1982, termination of production of the TR7 sports car this September and a severe pruning of costs and jobs at Jaguar. Consequential action is being taken at a number of other plants around the country. So far this year BL has shed 8,000 jobs and up to another 8,000 are scheduled to go in the remainder of the year. I am satisfied that this amounts to the vigorous and early remedial action which we agree is necessary but there are still serious financial problems at Jaguar and I shall watch the financial position there carefully over the next few months.

4 The Leyland Group is now the part of BL which gives the greatest cause for concern. The Group's losses for the year are forecast to be £74 million worse than budgeted, mainly as a result of a forecast reduction of 50% in the UK market for commercial vehicles in 1981 compared with last year. As you will

CONFIDENTIAL

CONFIDENTIAL

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

22 May 1981

*Hoskyns  
Hollers  
Worfon*

*NRB on yet*

*R  
116*

*A*

*hd 801*



recall, the Leyland Group Plan received last autumn was intended to be only indicative and was to be reviewed by the new management team under Mr David Andrews (Executive Vice-Chairman of BL). The revised Plan for this Group was recently considered by the BL Board and I expect to hear about it on 15 June from Michael Edwardes. This will provide an early opportunity to assess whether the measures designed to improve the profit and cash prospects for the Group look like being effective. Meanwhile, inventories in the Group are being cut heavily and an exercise to reduce staff numbers is in hand.

5 Like you, I am concerned that the taxpayer's money we are providing should not be used to keep the company afloat but should be used to strengthen BL so that it will be in a better position to negotiate partnership deals with other car manufacturers. The Department's monitoring has in fact shown that BL's expenditure on rationalisation is on target and that the capital investment programme to produce new car and truck models, although slightly reduced by economies, is substantially on course. The same depressed market conditions which are the main cause of BL's losses are also making it possible to reduce working capital.

6 Michael Edwardes told me on 12 May that he believed that a comprehensive collaboration arrangement with Honda would be possible and that this might conceivably involve Honda taking an equity interest in BL Cars. He did not think the possibility of a closer arrangement with Honda would weaken the prospects of the whole of BL being taken over by another company. The talks with Honda are only exploratory at this stage and the BL Board will not be considering the Honda collaboration proposals until either July or August. Government approval would not be sought until October. As Michael Edwardes promised in his confidential letter to me of 26 January, no commitment would be entered into without the Board having first cleared the principles of any such arrangement with the Government. I shall let you and colleagues know if there are any significant developments.

7 I have formed the impression from my discussion with Michael Edwardes and from the Department's regular monitoring of BL (with which the Treasury is associated) that the corrective action in BL Cars is sufficient to keep BL as a whole within the financial provision we have agreed for the years 1981-82 and 1982-83. Indeed, Michael Edwardes has stated publicly that BL will not be seeking more than the £990 million we have agreed to provide. As to whether the Plan is still on course, the measures being taken in BL Cars are vigorous and, so far as I can see, on the right lines. As I said in my letter of 16 April, we decided collectively in January to keep BL alive despite doubts about the company's viability. Events since then have done nothing to reduce our own scepticism about BL's chances of achieving viability in the timescale envisaged. The position has worsened in several respects but BL is taking corrective action in the cars business and has done relatively well on productivity and





industrial relations. It cannot therefore be said that BL's longer term prospects have changed so significantly since January as to destroy what prospect there is of recovery or to justify withdrawal of the Corporate Plan. There are serious questions about the future of the Leyland Group but the BL Board has not yet reached final decisions on the revised Corporate Plan for the Group. However, Michael Edwardes and David Andrews are calling on me to discuss the Leyland Group Plan on 15 June and officials will have a full opportunity to review the Leyland Group's prospects when considering the Plan.

8 I propose, if you and other colleagues agree, to write to Michael Edwardes saying that the Government accepts the BL Board's decision not to review the 1981 Plan as a whole at this stage, that the Government looks forward to reviewing the activities and prospects of the Leyland Group on the basis of the revised Plan and that the Government will continue to monitor closely BL's monthly results and revised forecasts.

9 I am sending copies of this letter to the Prime Minister, Jim Prior and Robin Ibbs and to Sir Robert Armstrong.

*Curran*

*Kevin*



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 5469 (Direct Line) /5778/5779  
01-219 3000 (Switchboard)

INDUSTRY AND TRADE COMMITTEE

Information for the Press

Finance for BL

On Friday 8th May at 11.00 a.m. the Industry and Trade Committee will publish a report on the provision of £990 million finance for BL Ltd, together with the written and oral evidence.

The witnesses were:-

The Rt. Hon. Sir Keith Joseph, Bt, MP, Secretary of State for Industry

Sir Michael Edwardes, Mr. N.J. Carver and  
Mr. F.L. Fitzpatrick of BL Ltd.

Attached to the Report is an Index giving references to Questions and Memoranda submitted in evidence on some of the principal matters.

Among the Appendices is a paper by the Committee's Specialist Adviser, Mr. D.G. Rhys, a senior lecturer in economics at University College, Cardiff. His paper highlights the salient points that emerged during the inquiry.

Copies of the Report may be collected from the Committee Office, House of Commons at 11.00 a.m. on Friday. No Confidential Final Revised Copies of the Report will be made available.

G. Cubie  
R. Lloyd Thomas

Clerks to the Committee

6 May 1981

CONFIDENTIAL

cc J Hoskyns  
A Walters  
D Wolfer



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

5th May 1981

The Rt. Hon. Sir Keith Joseph Bt MP  
Secretary of State for Industry

*Dear Keith*

*MSB*  
*12*  
*7/5*

BL'S FINANCIAL POSITION

You wrote to me on 16 April attaching a letter dated 10 April from Sir M Edwardes about BL prospects. Since then the Prime Minister has also commented.

This, of course, is worrying news. I understand that at the last monitoring meeting the deterioration in profit loss forecast compared with the 1981 Plan was put at some £150m. A deterioration of this order - expectation of profit losses have more than doubled - is extremely alarming. It is based, after all, on experience in the first 2 months of 1981, and unless this rate of loss can be stemmed very quickly the company's survival prospect is thin indeed. Even so I agree with you that it would be premature at this stage to consider either closing the company or requiring a complete and formal review of the Plan within the terms of the Chairman's letter of 26 January. At the same time it is clear that some pretty drastic measures are needed and that Sir M Edwardes will need to work fast if they are to be effective, and to offer firm prospects that the company will be able to manage within the substantial sums we have agreed to provide. I am sure that we are all agreed that it would be out of the question to consider increasing these sums further.

There is a further point on which I feel some concern. We envisaged that public money would be provided to help strengthen the company so that it would be placed in a better position to be able to negotiate partnership deals with other car manufacturers. To this end the Plan incorporated provisions for new investment and for rationalisation costs. I am sure you will agree it would be a waste of the funds, and in the end self defeating, if the money is used for no more than keeping the company afloat from one month to and next. Hence, while I agree with you that we should

/accept the

CONFIDENTIAL

CONFIDENTIAL



accept the Board's decision for the present not to initiate a formal review of the Plan, I do think we should probe very carefully into the revised prospects and the assumptions on which they are based. We need to be confident that whatever specific corrective action is proposed by the Board will be sufficient to keep the company within the financial provisions we have agreed. At the same time the measures should continue to offer reasonable prospects of a sustained recovery. If there are serious doubts on either of the two points we shall need to think carefully before continuing to commit further funds.

In the meantime, I understand that our officials have met BL economists to discuss the company's economic assumptions of part of the preparation for the 1982 Corporate Plan. These discussions suggest that the basic economic assumptions behind the 1981 Corporate Plan require substantial revision, especially in some sensitive areas like the exchange rate. The BL economists assured our officials that the results of the review would be incorporated in any revisions of the 1981 prospects in respect of the 1981 Plan. Clearly, it is important that this should be so and that a re-appraisal of the outlook should be based on the latest and most realistic economic assumptions about the outlook for the remainder of the year.

I am copying this letter to the Prime Minister, Jim Prior, Sir Robert Armstrong and Robin Ibbs.

GEOFFREY HOWE

A stylized handwritten signature consisting of a large 'G' followed by a horizontal line.

A handwritten signature in cursive script, appearing to read "Jim Prior".

CONFIDENTIAL



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

1st May 1981

T. Lankester, Esq.,  
10 Downing Street,  
London SW1.

*Prime Minister*

*I have explained  
to the Edmonds assistant  
that you have never  
dined with the public  
sector boards.*

*Dear Tim,*

*Flay A*

Sir Michael has asked me to thank you for your letter of 28th April. *12*

We understand fully that the Prime Minister has many important calls on her time, but Sir Michael is, of course, disappointed that the BL Board will not be able to have an exchange of views with her about the future of the British motor industry, in view of the fundamental problems faced by the industry throughout the Western world and their inter-connection with Government policies. *7/1-*

We will be in touch with you later in the year to see whether there is any point in returning to the subject then.

*Yours sincerely,*

*Roger Holmes*

Roger Holmes  
Assistant to the Chairman



10 DOWNING STREET

*From the Private Secretary*

28 April 1981

The Prime Minister has asked me to thank you for your letter of 23 March, and also to say that we are sorry that you have not had a reply earlier.

The Prime Minister was grateful for your invitation to dine with you and your Board, but she has reluctantly decided that - in view of her very heavy commitments between now and the summer recess - it will not be possible for her to accept at least for the next three months.

Sir Michael Edwardes

cc DOT  
Press office

T.P. [unclear]

BIC

CONFIDENTIAL



DGG  
col last para  
+ JH  
FW  
DW

10 DOWNING STREET

From the Private Secretary

27 April 1981

*Dear Sir,*

BL'S FINANCIAL POSITION

The Prime Minister has seen a copy of your Secretary of State's letter of 16 April to the Chancellor of the Exchequer. Subject to the latter's views, she agrees that Sir Keith should proceed on the lines he proposes in the penultimate paragraph of his letter; but she has commented that, in relation to the proposed reconsideration of BL's position and of the specific corrective action which BL say they will be taking, Ministers should take a fairly tough line. Since other companies are having to operate in identical economic conditions, she does not believe it would be right to do otherwise.

I am sending copies of this letter to Richard Tolkien (H.M. Treasury), Richard Dykes (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

*2*

*Ti*

Ian Ellison, Esq.,  
Department of Industry.

CONFIDENTIAL

JS

CONFIDENTIAL



Free  
ce.  
10 DOWNING STREET

*From the Private Secretary*

27 April 1981

BL FUNDING: CLEARANCE WITH THE COMMISSION

The Prime Minister has seen your letter of 14 April, and is content for your Minister to proceed as he proposes.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, and to David Hayhoe (Chancellor of the Duchy of Lancaster's Office), James Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

TPL

Peter Mason, Esq.,  
Department of Industry.

CONFIDENTIAL

JS





CONFIDENTIAL

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

*copies to: Mr Wolfson  
Mr Walker  
Ms Hodgson*

*I suggest we be  
fairly tough. other companies*

16 April 1981

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street,  
London SW1P 3HE

*have to operate in  
unfavourable conditions  
my*

*Prime Minister.*

*Agree with Sir Keith Joseph  
should proceed as he proposes or  
X / below? I understand that the  
Chancellor is likely to go along  
with the suggestion reply to the  
BL Board - RHW 24w.*

*John Geoffrey.*

BL'S FINANCIAL POSITION

I attach a letter dated 10 April which the Chairman of BL has sent me about BL's prospects.

2 You will see that the BL Board believe that economic conditions - in terms of both currency levels and economic activity - are significantly worse than assumed in the Corporate Plan. Internal performance, on the other hand, is satisfactory and indeed better than predicted in several key respects; for example, manpower at end February was 4000 lower than the budget figure and UK market share is running well above forecast (20.7% for cars up to the end of March compared with the budget of 18.5% for the same period - and this is on a rising trend with 23.1% in the whole of March).

3 The Chairman's letter is based on the first monitoring report for 1981, covering both January and February. Treasury officials have copies of this material and were present at the regular meeting with BL at staff level. I understand that the BL Board did not accept the revised forecasts for the whole of 1981 prepared by their staff, partly because the economic assumptions made were still somewhat optimistic, but partly because they had assumed that no corrective action would be taken. In fact the Board plan early and harsh corrective action (of which I have some preliminary details but expect to hear more on 12 May) involving significant accelerated closures, sharper manpower reductions and increased pressure on suppliers.

4 For these and other reasons set out in the letter, the BL Board have concluded that it would be premature to initiate a formal review of the Corporate Plan within the terms of the Chairman's letter of 26 January.

CONFIDENTIAL



CONFIDENTIAL

5 We need to decide now how to react to the Board's decision. The purpose of a formal review, if one were instituted, would be to decide on corrective action if that were possible, or on closure if not. It is clear that the Board already have corrective action in hand. As for closure, whatever our individual attitudes at the time, our collective decision in January on the balance of arguments was to keep BL alive. The question now is whether the balance of arguments has changed decisively. BL's internal performance and market share are rather better than the company's management or we expected. The external prospect in their view is somewhat worse: but I think it would be difficult for us to argue that the longer term economic prospects have changed so significantly since January as to destroy what prospect there is of recovery, especially since vigorous and early corrective action is planned. I therefore propose, if you and the Prime Minister agree, to tell the Chairman that I accept the Board's decision for the present. But I propose to say also that we shall be reconsidering the position in the light of the specific corrective action notified to us in mid-May and that we shall continue to monitor closely BL's monthly results and revised forecasts for the year in the light of economic prospects at the time.

6 I am sending copies of this letter to the Prime Minister, Jim Prior, Sir Robert Armstrong and Robin Ibbs.

*Ever,*

*Kear*

CONFIDENTIAL

TELEPHONE  
01-486 6000

13 APR 1981  
SECRETARY OF STATE  
FOR INDUSTRY'S OFFICE

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

10 April 81.

FROM SIR MICHAEL EDWARDES

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

CONFIDENTIAL

*New Secretary of State,*

IMPACT OF ECONOMIC OUTLOOK ON BL

Further to my letter of 11th March, the Board has now had an opportunity to consider the status of our 1981 Corporate Plan in the light of the present economic outlook, including the impact of the March Budget.

Volume

The Board believe that the immediate economic outlook has deteriorated substantially since the 1981 Plan was submitted to the Government. We now forecast that the UK car market will fall to 1.375m in 1981, compared with 1.42m in our Plan, and the decline in the UK truck market is even more severe. In addition, the developing trend towards smaller cars is likely to be accentuated by the Budget; this change in sales mix helps Metro, of course, but damages overall profitability because of the lower margins obtainable in this sector of the market. I should add that both our Plan and our latest forecasts have been broadly in line with motor industry forecasts.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

2.

### Sterling

The other economic factor which is showing a substantial deviation from the assumptions in our Plan is the level of sterling. Not only has the trade-weighted rate so far remained substantially higher than our forecast; but even more important to BL is the particular strength of sterling against the European currencies, at a time when we are launching our new car and truck models into Europe.

### Revised Assumptions

The Board concluded that the Government should be informed of the deterioration in these aspects of the external environment assumed in our Plan for 1981. We also considered whether it would be appropriate to agree at this stage on a new set of more pessimistic assumptions for the later years of the Plan and to review the strategies for the four main business groups accordingly, as provided in my letter to you of 26th January. The Board decided that such action would be premature, for three main reasons:-

1. The uncertainties about the economic outlook after 1981 are so great that we believe we are not in a position at this stage to take a firm view, even though many of the assumptions in our 1981 Plan now look optimistic compared with most recent external forecasts. However, BL staff are opening discussions with your officials on the economic assumptions which we shall have to establish in due course for the compilation of our 1982 Plan.
2. BL's trading performance in the first two months of 1981 was broadly in line with the Plan. Nonetheless, we are already in the process of developing action programmes, with the objectives both of offsetting the additional cash outflow caused by the deterioration in the economic situation, and of improving our competitiveness in future years. These actions

Continued

/These actions

are likely to include further reductions in manpower, additional or accelerated plant closures and further pressure on the prices of our component suppliers (with re-sourcing overseas where necessary). Our current financial projections for 1981 as a whole take no account of the impact of these measures. Some of these actions will be painful and controversial, and a meeting between us has been provisionally arranged for 12th May so that I can give you advance warning of any "sensitive" actions we may need to announce at or before the Annual General Meeting on 14th May. These actions are unlikely to represent any fundamental change to our strategy, apart from timing.

3. In the Leyland Group, where there has been a particularly substantial shortfall from the forecasts incorporated in our 1981 Corporate Plan, the Plan is in any event already under review. You will recall that the original Plan for the Leyland Group was intended only as an indicative document, to be reviewed by the new management team which is now fully in the saddle. The revised Leyland Group Plan (which will be submitted to the BL Board in May and thereafter forwarded to the Government) will, of course, include actions designed to improve the profit and cash outlook for the Leyland Group, in so far as the severe recession in the commercial vehicle market allows. For action purposes, this Plan will have to be based on updated and therefore tougher economic assumptions covering the full Plan period 1981-85. While these are acceptable for immediate operational decision-making, we would not want to rely on them when making long-term judgements about the Leyland Group, as there is no certain foundation for the economic assumptions.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

4.

To summarise: The external economic environment makes life more difficult for us, but, until we are clearer as to the impact of the Government's policies and actions on medium term economic prospects, we will not be proposing a major review of the Plan other than that already in hand for the Leyland Group. In the meantime, we are stepping up our streamlining programme.

I trust that the Board's overall approach and our tentative arrangements to meet on 12th May are acceptable to you.

Yours sincerely,  
Michael Power.

PV



Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

CONFIDENTIAL

15 April 1981

Sir Michael Edwardes  
35-38 Portman Square  
London W1H 0HQ

*Sir Michael*

Thank you for your letter of 10 April about your Board's approach to the influence of economic conditions on BL's financial performance. I shall be discussing this with my colleagues and will write to you again thereafter.

*Cindy*

*Ken*

CONFIDENTIAL

~~SECRET~~



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State

PS/Norman Tebbit MP

Prime Minister

A not wholly satisfactory progress report. But content to let Mr Tebbit proceed as he suggests at XI below?

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Yes

14 April 1981

TLW  
Hmi.

mt

Dear Tim

BL FUNDING: CLEARANCE WITH THE COMMISSION

Thank you for your letter of 5 April conveying the Prime Minister's comments on my letter of 31 March. Mr Tebbit has asked me to let you have the further report on developments which was promised in my letter.

The Minister duly discussed this dossier with Mr Andriessen on 7 April in Groningen in the margins of the Informal Council of Industry Ministers. Mr Andriessen told him that he was willing to recommend his Commission colleagues at their weekly meeting on 8 April to approve straight away the payment of £380 million to BL, and to open the procedure under Article 93(2) of the Treaty of Rome in respect of the balance of the proposed £990 million of funding pending further examination by the Commission of the justification for this. Mr Tebbit pressed him to increase the figure for immediate approval to £400 million (the sum which BL estimate they will need in the next few months), drawing attention to the presentational problems with which he would be faced if the Commission appeared to be making difficulties. Mr Andriessen said that this was not at all his intention; the Commission was open-minded about the case, but needed more time to examine it. Mr Andriessen subsequently resisted pressure from the British Commissioners at the Commission meeting itself to go to the higher figure.

Mr Tebbit considers that, although the £380 million is less than he had hoped for, there is a good case for being understanding towards Mr Andriessen's tactics: it is in the UK's wider interest that the Commission should be tough with the aid schemes which are about to be put forward by other Member States, particularly in the steel sector. Moreover, in the case of BL, Mr Andriessen has agreed to the minimum of publicity about the opening of the Article 93(2) procedure.

CONFIDENTIAL



CONFIDENTIAL



Other Member States' Governments have to be informed of this by letter to give them an opportunity to comment, but there will be no multilateral meeting about the case, no announcement by the Commission on the opening of the procedure and no consultation of other interested parties by means of a notice in the Official Journal. Mr Andriessen has also promised that the Commission's further consideration of this case will be brought to a speedy conclusion.

X In the circumstances, the Minister thinks that he and officials should proceed coolly into the next stage of discussions with the Commission in the expectation of reaching a satisfactory outcome by the end of June, if possible. He has left Mr Andriessen in no doubt that he would be unable to accept a refusal by the Commission to clear the BL plan, and that Parliament would take the same view. If trouble seems likely to develop, the Prime Minister and other colleagues will be informed in good time so that they can consider the Government's response, including the possibility of direct intervention through Mr Thorn before a final Commission view is reached.

I am copying this letter to the private secretaries to all members of E Committee, David Hayhoe (CDL), James Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

*Yours sincerely*

PETER MASON  
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

27/4



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

9 April 1981

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Prime Minister*

*Sir Michael Edwardes (Play A) has  
invited you to dine with the BL  
Board. Sir invites memorandum but  
you accept. Do you wish to ?*

*No - reject  
not*  
Dear Tim

Thank you for your letter of 24 March seeking advice as to whether the Prime Minister should accept Sir Michael Edwardes' invitation to a working dinner with his Board. *R*

2 The BL Board is small and high-powered and, if the Prime Minister accepted the invitation, she could be assured of a stimulating discussion. The Prime Minister would have the opportunity to hear at first hand how BL think they are doing so far this year and how they view future prospects. On the other hand, Sir Michael could be expected to criticise the recent Budget and the Government's policies on such matters as the exchange rate and imports of cars. *2/4*

3 On balance, my Secretary of State would recommend the Prime Minister to accept the invitation if it can be fitted in with her other engagements.

*Yours ever*

*len*

I K C ELLISON  
Private Secretary

CONFIDENTIAL

CONFIDENTIAL 21



hd pp

c. c.  
C/D  
LOD  
CO  
HO  
FCO  
HMT  
D/I  
LPO  
D/M  
MAFF  
D/Trade  
D/N  
Chief Sec., HMT

10 DOWNING STREET

*From the Private Secretary*

6 April, 1981.

Dear Peter,

BL Funding: Clearance with the Commission

The Prime Minister has read your letter of 31 March about the clearance by the EEC Commission of BL's new funding programme. She has commented:-

"We must make it clear to the Commission that they must not make difficulties."

I am sending copies of this letter to the Private Secretaries to the members of E, to David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), James Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

Yours sincerely,

(T.P. LANKESTER)

Peter Mason, Esq.,  
Department of Industry.

CONFIDENTIAL

885



10 DOWNING STREET

1. MR. ALEXANDER
2. PRIME MINISTER

*Paul*

We may be running into difficulties with the EEC Commission over the BL funding.

*T.L.*

T.L.

*MB*

2 April, 1981.



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

From the  
Minister of State

PS/Norman Tebbit MP

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*We must make clear to the Commission that they MUST NOT make difficulties.*

31 March 1981

*Dear Tim*

**BL FUNDING: CLEARANCE WITH THE COMMISSION**

Mr Tebbit thought that it might be useful for his colleagues to have a brief progress report on the discussions which he is having with Commissioner Andriessen about the Government's intention to invest £990 million in BL in 1981-82 and 1982-83.

The attached telegram from UKREP reporting on Mr Tebbit's meeting with Mr Andriessen on 27 March gives a good summary of the position which has been reached. As will be seen, Mr Andriessen agreed to consider urgently the suggestions put to him and to give Mr Tebbit a reaction early this week. In the light of this, my Minister does not consider that there is any immediate action for the Government to take before he sees Mr Andriessen again, but thought that his colleagues should be aware that there may soon be a serious problem with the Commission which will need to be faced. The Commission's deadline for considering this dossier is 13 April, which is also the day on which the first tranche of money has to be paid to BL. We will of course keep the Prime Minister and other colleagues informed of any developments.

I should add that the Cabinets of both British Commissioners have been kept informed of the position on this application and Mr Tebbit himself spoke to Mr Tugendhat about the best way to proceed; indeed, it was on Mr Tugendhat's advice that he sought the informal meeting which took place on 27 March.

I am copying this letter to the the private secretaries to all members of E Committee, David Hayhoe (CDL), James Nursaw (Law Officers' Department) and David Wright (Cabinet Office).

*Yours sincerely  
Peter Mason*

PETER MASON  
Private Secretary

B2

RESTRICTED

GR 1050  
RESTRICTED  
FRAME INDUSTRIAL  
DESKBY 271700Z  
FM UKREP BRUSSELS 271505Z MAR 81  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 1139 OF 27 MARCH.

RECEIVED IN  
30 MAR 1981  
OFFICE OF THE  
MINISTER OF STATE

BRITISH LEYLAND

1. MR TEBBIT CALLED ON ANDRIESEN TODAY ACCOMPANIED BY MASON (PS) AND EKINS-DAUKES. VAN VOORST (ANDRIESEN CABINET) WAS ALSO PRESENT.

2. MR TEBBIT OUTLINED THE CASE FOR SUPPORTING B L IN POLITICAL TERMS. HE COULD UNDERSTAND THAT THE CASE PRESENTED ANDRIESEN WITH PROBLEMS. EQUALLY, THE DECISION HAD NOT BEEN EASY FOR HMG, INVOLVING AN ADDITION OF POUNDS STERLING 1 BILLION TO THE GOVERNMENT'S POUNDS STERLING 10 BILLION DEFICIT, BUT THE COST OF CLOSURE WOULD HAVE BEEN GREATER THAN THE SUPPORT NEEDED TO ACHIEVE VIABILITY. POLITICALLY, WHILST A LIQUIDATION OF BL MIGHT HAVE BEEN CONCEIVABLE ONE OR TWO YEARS AGO, IT WAS NOW VERY DIFFERENT GIVEN METRO'S SUCCESS AND THE TRANSFORMATION OF ATTITUDES IN THE COMPANY. HMG COULD NOT EXPECT TO CARRY THE HOUSE OF COMMONS IN FACE OF A COMMISSION REFUSAL TO AUTHORIZE AID.

3. ANDRIESEN SAID HE WAS NOT CONVERSANT WITH ALL THE DETAILS. HIS FIRST IMPRESSION WAS THAT SOME PARTS OF BL PRESENTED NO DIFFICULTIES (UNIPART, LAND ROVER) AND INVESTMENT IN THEM DID NOT CONSTITUTE AID. THE OTHER DIVISIONS WERE THE PROBLEM AND MORE DISCUSSION AND INFORMATION ON VIABILITY WERE NEEDED. HE WAS SURPRISED THAT AN INCREASE IN PRODUCTION WAS ENVISAGED. MR TEBBIT DEMONSTRATED THAT THIS WAS NOT THE CASE AND UNDERTOOK TO SUPPLY ANY FURTHER INFORMATION REQUIRED. ON VIABILITY, HE STRESSED BL'S PROGRESS AND PERFORMANCE SO FAR - INTERNAL OBJECTIVES ATTAINED, DATES FOR NEW MODELS MET, GOOD QUALITY AND SALES PERFORMANCE, MAJOR FALL IN DISPUTES. THE 13 MODELS OF CARS WERE BEING REDUCED TO 3 MAIN FAMILIES. THE FIRM UNDERSTANDING WITH SIR MICHAEL EDWARDES THAT IF CONDITIONS DETERIORATE, HE WOULD INITIATE CLOSURES, AND THE REALISATION OF THIS BY THE WORKFORCE, WERE ALSO IMPORTANT. MOREOVER BL'S PROGRESS WAS BEING MONITORED MONTHLY BY MR TEBBIT PERSONALLY (EG HIS VISIT NEXT WEEK TO JAGUAR TO DECIDE THE FUTURE OF THE NEW MODEL).

RESTRICTED

/4. ON

NZ

4. ON PROCEDURE, VAN VOORST SAID THAT ARTICLE 93 NEEDED TO BE INVOKED TO FACILITATE FURTHER DISCUSSION WITH HMG AND BRING IN OTHER MEMBER STATES WHO HAD TO BE INFORMED AND GIVEN THE CHANCE TO COMMENT. BL'S PLAN WAS BASED ON CERTAIN ASSUMPTIONS, BUT THERE WERE A RANGE OF POSSIBLE SCENARIOS WHICH NEEDED TO BE EXPLORED. IF, THROUGH THIS EXAMINATION, BL COULD BE SEEN TO BE PROFITABLE IN A FEW YEARS, SUPPORT COULD EASILY BE DEFENDED AS RESTRUCTURING AID. MR TEBBIT RESPONDED THAT HE WISHED TO AVOID THE ARTICLE 93 PROCEDURE. THIS COULD DAMAGE BL BY AFFECTING CONFIDENCE AND INFLUENCE OPINION IN THE UK AGAINST THE EEC. BL NEEDED SUBSTANTIAL SUMS URGENTLY AND DRIP-FEEDING IT DURING THIS PROCEDURE WAS NO SOLUTION. BUT HE UNDERSTOOD THE COMMISSION'S CONCERN AND WAS WILLING TO OFFER ASSURANCES

IN LIEU OF ARTICLE 93

PROCEDURE WHICH WOULD LEAVE THE COMMISSION'S POSITION UNAFFECTED. FOLLOWING EXCHANGES BETWEEN VAN VOORST AND EKINS-DAUKES OVER THE NATURE OF ARTICLE 93 PROCEDURE AND THE NEED FOR A MULTILATERAL MEETING, ANDRIESEN EXPRESSED RECOGNITION OF THE POLITICAL PROBLEM AND, WHILST STRESSING THE NEED TO AVOID DANGEROUS PRECEDENTS, WITHOUT COMMITMENT UNDERTOOK TO LOOK INTO THE QUESTION OF AVOIDING ARTICLE 93. HE ALSO FAVOURED A DISCUSSION OF DIFFERENT SCENARIOS TO TEST ASSUMPTIONS.

5. MR TEBBIT REFERRED TO BL'S URGENT NEED FOR FUNDS. PARTIAL FUNDING ON THE BASIS OF PROFITABLE DIVISIONS WAS NOT REALISTIC. ONE SOLUTION WOULD BE A LETTER FROM ANDRIESEN SAYING THAT PART OF HMG'S INVESTMENT IN BL COULD BE REGARDED AS A NORMAL COMMERCIAL PROPOSITION FOR WHICH THERE WAS NO REQUIREMENT FOR COMMISSION APPROVAL: PENDING FINAL EXAMINATION OF THE REMAINDER, A TRANSFER OF POUNDS STERLING 400-500 MILLION COULD BE AUTHORISED. ANDRIESEN COMMENTED THAT HE HAD OTHER URGENT CASES AND NEEDED TO BE CONSISTENT. HE WAS INCLINED TO QUERY THE AMOUNT OF THE TRANCHE AND WOULD HAVE TO LOOK CAREFULLY AT THE TERMS AND CONDITIONS. (VAN VOORST SUGGESTED AN EXPLICIT REFERENCE TO REFUNDING IF THE COMMISSION FOUND AGAINST BL.) ANDRIESEN UNDERTOOK TO CONSIDER VERY URGENTLY AND GIVE A REACTION EARLY NEXT WEEK.

6. ANDRIESEN INSISTED ON THE NEED TO CONTINUE WITH ARTICLE 93 PROCEDURES ON A PRECAUTIONARY BASIS. IT WAS AGREED THAT HE AND MR TEBBIT SHOULD MEET VERY SOON AND DISCUSS FURTHER BEFORE ANY DECISION WAS REACHED.

FCO ADVANCE TO:-

FCO - SPRECKLEY, JONES-PARRY  
CAB - BROWN  
DOI - PS/MR TEBBIT, MOUNTFIELD, BOWDER

BUTLER

FRAME INDUSTRIAL  
ECD (I)

[ADVANCED AS REQUESTED]

BL Limited  
35-38 Portman Square,  
London W1H 0HQ, England.  
Telephone: 01-486 6000

P.A.

Tim Hatkester

Attached is our latest organisation  
chart, as announced on 20 March,  
with a list of Board members  
in the left-hand corner.

with compliments

Sir Michael Edwardes' office

Roger Holmes  
25.3.81.



**BOARD MEMBERS**

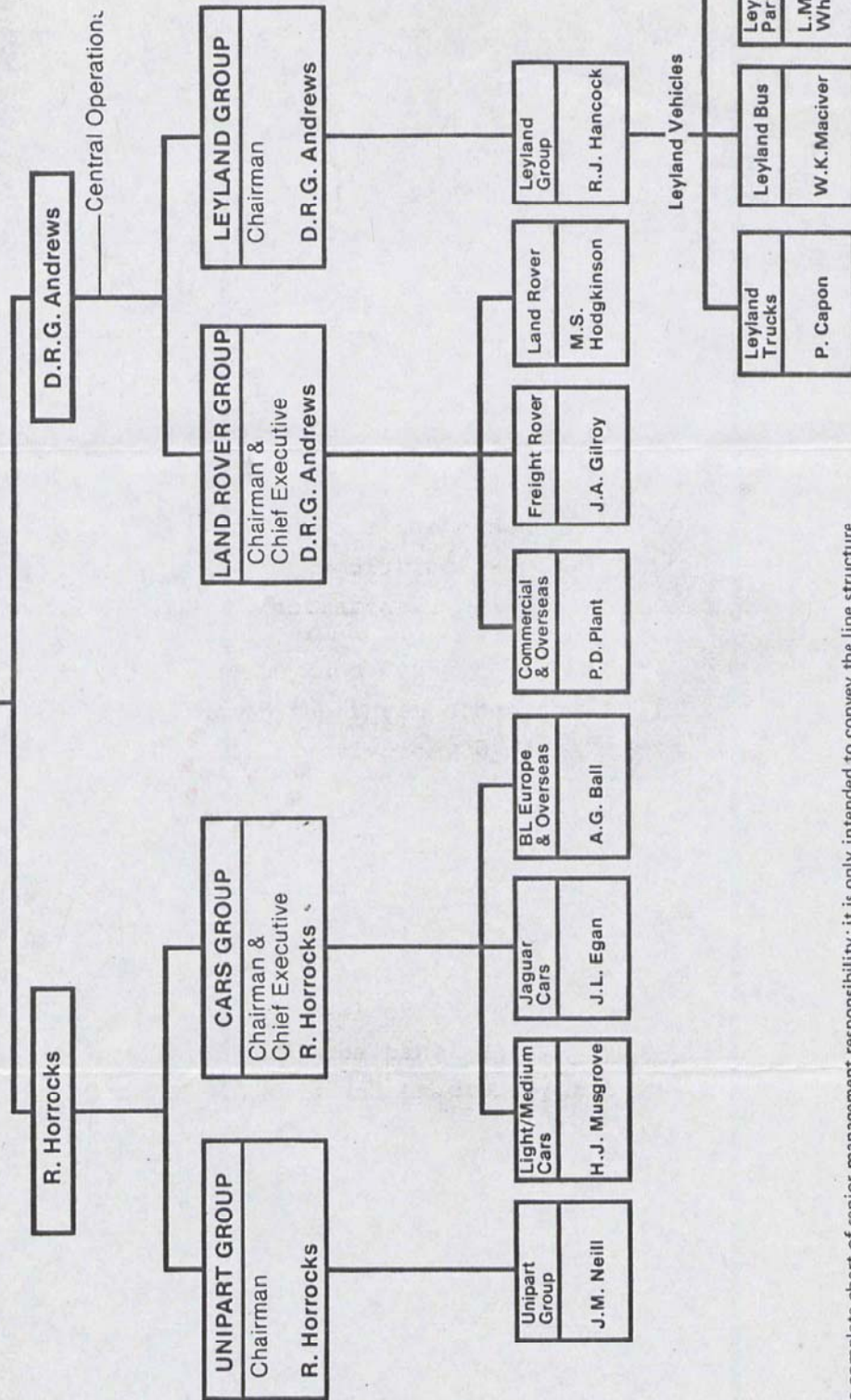
- Sir Michael Edwardes, Exec. Ch.
- Sir Austin Bide, Dep. Ch.
- D R G Andrews
- Sir Robert Clark
- R Horrocks
- Sir Robert Hunt
- J R Mayhew-Sanders  
(Secretary — A R W Large)

• non-executive

**BL LIMITED BOARD**  
Executive Chairman  
**Sir Michael Edwardes**

Corporate Panels

Corporate Services



not BL

Note: This is not a complete chart of senior management responsibility; it is only intended to convey the line structure.



How  
ind

10 DOWNING STREET

*cf. 25/3*  
MISS STEPHENS

Re Sir Michael Edwardes' invitation to the Prime Minister to a working dinner. I have written to Industry asking them for advice and have not put in your note to the Prime Minister.

*T.L.*

T.P. Lankester

24 March 1981

BRITISH LEYLAND

24 March 1981

Dear Ian,

You should have received a copy of Sir Michael Edwardes's letter of 23 March to the Prime Minister inviting her to a working dinner with his board (copy enclosed if you have not). I should be grateful for your advice as to whether the Prime Minister should accept this - assuming we can find a suitable date.

Yours sincerely,

T.P. Lankester

Ian Ellison, Esq.,  
Department of Industry.

24 March 1981

I am writing on behalf of the Prime Minister to acknowledge your letter of 23 March. I will place this before the Prime Minister and you will be sent a reply as soon as possible.

CAROLINE STEPHENS

Sir Michael Edwardes

CH



10 DOWNING STREET

1. MR. LANKESTER *Caroline*
2. PRIME MINISTER *Told that TL  
has written to  
Industry*

Michael Edwardes invites  
you for a working dinner in  
April or May with his Board  
and some of your colleagues.

Do you wish me to find a  
date?

*es.*

24 March 1981



*cc Press*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3BB

*Prime Minister*

Mike Pattison Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

*mp*

*There is a problem  
with right hand drive  
metros: BL are  
23 March 1981  
inviting all  
owners to bring  
cars in for a  
minor modification.  
it has already been  
introduced in  
production.*

*MM  
23/3*

*Dear Mike,*

Thank you for your letter of 23 March about a possible defect in the Mini Metro.

The attached two statements which are just about to be issued simultaneously by British Leyland and the Department set out the latest position.

We will be providing briefing on this for tomorrow's Prime Minister's questions.

*Yours,  
Anthony Mayer*

R A J MAYER  
Private Secretary

DEPARTMENT OF TRANSPORT STATEMENT ON MINI METRO

23 MARCH

1. Department of Transport officials discussed the possible steering problem on the Mini Metro with British Leyland engineers today.

2. BL have decided to introduce a minor modification to overcome any possible risk and they will be writing to all owners later this week inviting them to contact their local dealer in order to have <sup>the</sup> ~~a~~ modification carried out free of charge. The modification has already been introduced on vehicles in production.

3. The Department stresses that the problem only arises if drivers put very heavy pressure on the rubber seal underneath the clutch at the base of the steering column. Provided the car is driven in the normal way there is no need for concern. The Department would advise owners to have the very small modification carried out as soon as their local dealer contacts them.

BRITISH LEYLAND STATEMENT ON MINI METRO

23 MARCH

1. British Leyland engineers have now completed their investigations into two incidents involving Austin Metros neither of which involved injury.
2. A meeting was held earlier today with DTp officials. BL have decided to write this week to all Metro owners explaining that certain unorthodox driving techniques could cause heavy pressure from the driver's left foot on the rubber seal at the base of the steering column, thereby stiffening the steering action.
3. Left hand drive Metros are not affected.
4. The minor modification designed to overcome this problem has already been introduced in production and owners will be invited to contact their local dealers so this modification can be carried out on all existing vehicles free of charge.



TELEPHONE  
01-486 6000

35-38 PORTMAN SQUARE  
LONDON W1H 0HQ

A

FROM SIR MICHAEL EDWARDES

23rd March 1981

The Rt.Hon. Mrs. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London SW1.

*Dear Prime Minister,*

Now that the BL Plan has been approved, and there are no immediate issues, my Board would very much like to invite you (together with any colleagues) to join us for a working dinner.

I think you know that we have a small Board, mainly non-executive in make-up, and I believe that you would be assured of a constructive debate. We have no funding axes to grind at this stage!

If the idea appeals to you - perhaps for April or May - we will respond to any dates your office has in mind.

*Yours sincerely,  
Michael Edwards.*

Copy: The Rt.Hon.Sir Keith Joseph, Bt.MP.

JRH

23 March 1981

Thank you for your letter of 20 March about a possible defect in the Mini Metro.

B/P/

The Prime Minister has seen this and would be grateful to be kept informed as soon as there are any developments.

MAD

R.A.J. Mayer, Esq.,  
Department of Transport.

*de Press*



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*mb*

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

*Prime Minister*

20 March 1981

*This metro problem will be clearer  
on Monday: but at least it  
cannot apply to the European model.*

*Dear Mike,*

You asked for urgent advice on the story which appeared in this morning's Guardian about a possible defect in the Mini Metro following two recent accidents in which the car steering apparently locked.

*MAD  
27  
3*

BL are now carrying out urgent tests on the Metro, and the Department's Vehicle Examiners have already inspected one of the suspect cars. The results of all this will be available for the meeting between the Department and British Leyland on Monday and it will be possible to decide then whether there is a safety defect in the steering and whether the Metros so far produced need to be recalled and modified. Meanwhile we understand that British Leyland have, as a precaution, modified the suspect component in all Metros now in production.

The background is briefly this. Two cases have been reported in which the Metro's steering has locked whilst the car is in motion. This seems to have happened as a result of the bolts at the base of the steering column accidentally locking. The bolts are protected by a rubber seal. In the one car we have inspected what seems to have happened is that the driver's foot pushed the rubber seal on to the bolts and caused them to jam. What we have to establish is whether this would happen in any but the very rarest of cases. The driver in the case we know of was wearing a heavy surgical boot and was not able to feel that he was exerting abnormal pressure. Quick tests that we and BL have carried out have been unable to reproduce the failure without exerting the sort of pressure which would not normally occur.

All new cars tend in their first year or two to display unexpected faults which are gradually picked up and put right as the model develops. Most are very minor and have no safety implications. The Department of Transport investigates with the

manufacturers all those which may have safety implications under a Code of Practice on the handling of safety defects which was agreed with the Society of Motor Manufacturers and Traders in 1979. If they turn out to be safety defects - and many in the event turn out either to have no safety implications or, more commonly not to be defects in design or manufacture but simply one-off failures or the result of poor treatment - immediate steps are taken to trace the vehicles and have them modified. Nearly 700,000 vehicles have been recalled under such arrangements so far. In this case we have no evidence so far to suggest that a recall will be justified but, depending on the results of the further investigation, we should be in a position to decide definitely on Monday.

The Prime Minister might also like to know that British Leyland tell us that the steering column fixing on left-hand drive Metros which are now being launched in Europe is quite different. So if there should have to be a recall to modify the steering components, it would not affect the European launch.

I am copying this letter to Ian Ellison, Private Secretary to the Secretary of State for Industry.

Yours,

Anthony Mayer

R A J MAYER  
Private Secretary

27 February 1981

Policy Unit

→ John Hoskyns

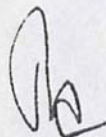
PRIME MINISTERBRITISH LEYLAND

You will remember that Keith raised the question, just before Christmas, of CPS doing some further analysis of the implications of liquidating BL. The Policy Unit argued that the Treasury looked purely at PSBR effects and not at a proper cost-benefit analysis. We have in fact taken the first steps towards cost-benefit analysis, involving Alan with CPRS.

I have had further discussions with CPS, in particular with John Redwood of Rothschild's and Dr Alex Rubner (by whom I was impressed). They are prepared to do further work to establish a more realistic assessment of what would happen if BL was liquidated. I have told them that they should not put this work in hand if you have already taken a decision that liquidation of BL is simply not a starter between now and the next Election.

To some extent it is a chicken-and-egg situation. If the analysis showed that we could absorb the break-up of BL much more easily than the Treasury realised, then the colleagues might be ready to face reality over BL. If you think that liquidating BL is at least a political possibility, then I would suggest that CPS aims to prepare a paper before the summer recess, so that E members have got time to read, think and understand what the BL decision is really all about, well before the begging bowl comes round yet again.

Do you think it is worth CPS putting this work in hand?



Yes not

JOHN HOSKYNS



Secretary of State for Industry

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

*2nd Pal*

13 February 1981

The Rt Hon Sir Geoffrey Howe QC MP  
 Chancellor of the Exchequer  
 HM Treasury  
 Parliament Street  
 London SW1

*John Geoffrey*

*R*  
*142*

BL: MONITORING AND ANNUAL REVIEW

Thank you for your letter of 4 February about the arrangements for monitoring and annual updating of BL's plans.

2 I quite agree that it is important to have a clear picture of the Government's role in these arrangements, and to ensure that there is no room for misunderstanding with Michael Edwardes on this score.

3 The draft Memorandum of Understanding on the relationship that will obtain between BL and myself after the transfer from the NEB takes place at the end of March contains satisfactory passages both on monitoring and on the annual updating of the Corporate Plan. Treasury officials commented last year on the draft Memorandum and the Memorandum was subsequently accepted in principle by the BL Board. BL has given an assurance that Michael Edwardes has no intention of re-opening this issue in the light of the Government's decision on two-year funding. A final text of the Memorandum will, of course, be cleared with Treasury officials before the transfer of BL takes place.

4 As to the monitoring process itself, meetings with BL are attended by officials here, including accountants from the Industrial Development Unit. Treasury officials already receive copies of BL's periodic financial reports and have the opportunity to comment on them. I envisage that they will continue to be involved in this way and any comments which they make will be followed up with the company.

5 I am copying this letter to the Prime Minister and Robin Ibbs.

*John Geoffrey*



*Prime Minister  
Ind Pd*

2

*cc Mr. Douglas*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

4 February 1981

*2*

*9/2*

The Rt. Hon. Sir Keith Joseph, Bt., MP.,  
Secretary of State for Industry

*Don Hill*

*[Handwritten signature]*

BL: MONITORING AND ANNUAL REVIEW

Now that you have announced the Government's decisions on the BL Corporate Plan I should like to be clear about the arrangements for monitoring and annual up-dating of BL plans.

We have of course taken a firm decision on two-year funding for BL, though as your statement makes clear this commitment depends on BL's progress. Indeed it applies as much to the £620 million for 1981-82 as to the £370 million for 1982-83.

I am not concerned here with what we say in public about monitoring and annual reviews. I recognise the awkwardness of linking the Government in public statements with the monitoring process and with further annual plans. I also recognise the risk of implying even in confidential exchanges with Michael Edwardes that we are expecting the sort of prolonged review towards the end of 1981 which we have had in the last two years.

However, there are very large sums of public money at stake and it is important to have a clear picture of the arrangements for Government monitoring and involvement in the annual review, and to ensure that in your confidential exchanges with Michael Edwardes there is no room for misunderstanding on this score. I was glad to see that in his letter to you which was published in Hansard on 26 January Michael Edwardes referred to 'the annual updating of the Plan towards the end of 1981', as well as to BL's normal monitoring of progress. I should be grateful if you could let me know how you envisage the regular system of monitoring after BL is transferred from the NEB, a process which should involve Treasury officials.

I think that it is important to have a written understanding with Michael Edwardes on the arrangements for monitoring and for the 'annual updating' mentioned in his letter. I should be grateful if your officials could clear the final text of the proposed Memorandum of Understanding with mine. The

/key point

CONFIDENTIAL



key point for 1982-83 is that the updating and Government examination of the plan would precede our decision to confirm the £370 million of additional equity.

I am sending copies of this letter to the Prime Minister and Robin Ibbs.

GEOFFREY HOWE

*[Handwritten signature]*

CONFIDENTIAL



THE INDUSTRY BILL : THE FUNDING OF BL

It is hoped that Members will find the attached brief of use for the Debate on Wednesday 4th February 1981 on the remaining stages of the Industry Bill. The Debate is expected to focus on the Government's recent decision regarding BL.

Contents

1. Background to BL
2. BL's recent performance
3. The 1981 Corporate Plan
4. The Government's policy

## 1. Background to BL

BL's predicament is the result of an almost unique combination of private mismanagement and public interference over the years. The 1950s and 1960s were a period of rapid merger between motor industry companies in the UK and abroad. Even the emergence of BMC and the Rootes Group left then at a disadvantage as far as size was concerned compared with Renault and Citroen which fell under French state management, and compared with the larger Volkswagen and Fiat companies. That disadvantage stemmed from the fact that the pursuit of high volume and long production runs had become the principal way of cutting costs sufficiently within the industry in order for firms to be competitive.

However, such a strategy could only succeed if three further conditions obtained:

- first, there had to be a small number of highly attractive models,
- secondly, there had to be sufficient profitability for heavy new investment to be afforded,
- thirdly, long production runs required smooth industrial relations.

In varying degrees each of these conditions went unfulfilled. In the early 1970s, whereas the Rootes Group under Chrysler and Vauxhall under General Motors had limited themselves to producing a few models, BL maintained the widest model range of any car producer in the world.

Secondly, profits were very low; those that were made were distributed largely as dividends; new investment suffered. The Ryder Report in 1975 noted that more than half BL's plant (by cost of acquisition) dated from before 1966.

Thirdly, in 1973 figures published in the Economist revealed that BL workers produced 5.9 vehicles per man compared with 11.6 vehicles from Volkswagen and 14.6 from Renault.

Against that background, it is no surprise that neither the formation of British Leyland in 1968 through the merger of British Motor Holdings and the Leyland Motor Corporation (encouraged by Mr. Benn and the Industrial Reorganisation Corporation with taxpayers' money) nor the subsequent 1975 nationalisation deal, did anything to revive the ailing car giant. The Ryder Report (March 1975) recommended: state ownership, increased capital expenditure, reduced manning levels, reorganisation of BL's corporate structure and more 'industrial democracy'. Unfortunately, the Ryder recommendations were fatally flawed in two ways. First, they were based on unrealistic (and unattained) estimates of future profits (£1.4 billion for investment to match £1.4 billion from Government): Secondly, there was no effective means proposed of bettering working practices and increasing productivity.

The British Leyland Act received Royal Assent on 3rd July 1975. Since then the Government - any Government - has perforce been in the motor car business and the potential cost of pulling out - particularly in times of recession - has spiralled along with

actual  
the cost of staying in. The following table shows Government  
funding through 'equity' for BL since nationalisation:

	<u>Equity</u>						
	<u>£ million</u>						
	1975-6	1976-7	1977-8	1978-9	1979-80	1980-1*	1981-2*
BL funding	200	-	-	475	300	620	370

\* Proposed

Between 1975 and 1978, BL's record on all fronts was poor.

The following table shows BL Cars' UK market share over the years

1975	1976	1977	1978	1979	1980
30.9	27.4	24.3	23.4	19.6	18.2

In November 1977 Michael Edwardes became BL's Chairman and Chief Executive and in April 1978 the main components of the new strategy were revealed. While fully supporting the strategy itself - based on remodelling the Mini replacement, updating existing medium range models prior to introducing a new one, improving the Land and Range Rover models, maximising the potential of Jaguar and Rover - Conservatives were less happy about the £850 million (£450 million in 1978) required for it in Government funding. However, Conservatives voted against the extra funds (£300 million) for the NEB's funding of BL not against the principle of further state aid for BL. Sir Keith Joseph made it clear at the time: "We want British Leyland to succeed." (Hansard, 15th April 1978, Col. 1016).

## 2. BL's Recent Performance

BL's 1980 Corporate Plan was announced with a request for Government funding of £297 million in 1980. BL also envisaged a requirement of £133 million more between 1981 and 1983. The Government in fact agreed to provide £300 million in 1980-81 - in two equal amounts the second to be drawn on if need was proven. £150 million of loans were also converted to equity. The Government's decision reflected BL's better performance, especially in the field of industrial relations. It also reflected the undertaking given in a letter from Sir Michael Edwardes to Sir Keith Joseph, that if there were a significant shortfall in cash flow, whether from internal or external strikes, or delays in BL's programmes for investment and launch of new products, redundancies, better productivity and working practices, or any other cause internal or external, the Plan would be abandoned.

The performance of BL during the period since December 1979 when this undertaking was given can, of course, be judged according to various criteria. The following table shows the result according to one criterion - profitability:

	<u>£ million</u>		
	Full year 1978	Full year 1979	First Half 1980
Profits (Loss) After extraordinary Items:	(37.7)	(144.5)	(181.5)

It is, however, important to note that of these losses costs incurred in reducing manpower both in plants kept open or in plants closed, plus other closure costs - in other words costs which would reduce the closure cost of BL if such a decision were for any reason at some future time to be taken - are as follows:

	<u>£ million</u>		
	Full year 1978	Full year 1979	First Half 1980
Cost of Man power Reductions + Closure costs:	28.2	26	46.7

It is also true that the strength of sterling - particularly when 95 per cent of all materials bought by BL are purchased in the UK as a matter of policy - has caused BL serious difficulties on UK and foreign markets.

The second criterion for BL's performance must be output. The following table shows world sales volume of BL's products:

(000s)	1978	1979	1980 (Est.)
BL cars	702	583	470
Land Rover	59	57	60
BL Commercial Vehicles	52	53	45
Other and Consolidation	(16)	0	4
Total Company	797	693	579

For reasons of commercial confidentiality BL do not make available significant productivity figures i.e. figures reflecting the level of manning on their production lines. On the other hand, it can be seen from the following table that significant de-manning had taken place to match the fall in volume of output:

World-wide Manpower (000)

	Dec 1977	Dec 1978	Dec 1979	Dec 1980
<u>Total Employees</u> . . . . .	198	187	169	141
<u>Reduction in Year</u> . . . . .		11	18	28

BL claim that their formal productivity figures have been affected by the amount of short-time working resulting from the recession and the world-wide problems of the motor vehicle industry.

The third criterion for judging BL is its success in introducing and selling new models. In fact during 1980 the following new products were launched: Morris Ital, TR7 Convertible, Metro, T45 Roadtrain truck (new version), B45 Double Deck Bus ('Olympian'), T43 Landtrain truck (new version). Of these the most successful by far was, of course, the Metro. The recovery of BL's fast dwindling home market share is almost exclusively a result of the Metro's success. The Metro obtained 10.5 per cent of BL cars' 22.2 per cent market share in December 1980. The result would have been better still if 5,000 Metros and Minis had not been lost as a result of the strike - ended on 4th January 1981 - at Longbridge. Production of the Metro is currently running at approaching 4,000 a week and has been increasing.

The fourth and - because of the wider effects as an example throughout the rest of British industry - arguably most important criterion is labour relations. the repeated victories (complete or partial) of BL's management over militants and those seeking to disrupt production are seen by many to have had an important impact in raising the morale of management and inducing realism among the work force. This was recognised by the Prime Minister in her interview with Brian Walden's 'Weekend World' programme on 1st February 1981. She noted:

"Does it really seem to be the time to say to them, 'No, I am going to chop you off at the stocking tops, when 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 co-operation "

(For the Prime Minister's further elaboration of Government intentions towards BL, see below: 'Government Policy' .

Notable on the labour relations front have been:

- the vote on 20th February 1980 by 10 to 1 Longbridge workers against striking over the dismissal of Mr. Derek Robinson, Communist shop steward.
- the unilateral imposition, in spite of the TGWU giving official backing to those refusing to accept it, of a 5 to 10 per cent pay increase in March 1980.

- the acceptance of the latest 6.8 per cent pay offer after a majority of factory meetings voted against disruptive action.
- the return to work on 4th January 1981 of 1,500 Metro workers striking over the dismissal of eight of their colleagues (including four shop stewards) after a riot at Longbridge.
- above all, the dramatic fall in the number of working days lost though industrial action (This is, of course, it should be noted, a not entirely unique or unexpected occurrence during a deep recession).

Man hours lost through internal disputes were as follows:

	1977	1978	1979	1980
Man hours lost (millions)	14.8	10.0	13.5*	3.5

\* Includes 8.7 million hours lost as a result of the CSEU dispute.

3. The 1981 Corporate Plan (see BL's Memorandum - available in the Vote Office)

The 1981 BL Corporate Plan is a development of the approach in the other plans brought forward by Sir Michael Edwardes. The principal difference is that it envisages very heavy funding by Government over the next two years. It aims at profitability for BL 'in a five to ten year period'. It seeks a return on assets of 15 per cent in a similar period. It assumes that the UK's competitiveness - principally price competitiveness - will continue to deteriorate in 1981 and not return to the 1980 level within five years. Inflation is expected to remain significantly higher than in BL's major competitor countries, bar Italy. A fall in the trade-weighted exchange rate is predicted from 75 in 1980 to 65 by 1985.

BL wanted the following sums from the Government:

<u>£ million</u>	
1981-2 . . . . .	620
1982-3 . . . . .	370
1983-4)	
1984-5)	150

The disposal of 'major non-mainstream interests' over the period of the plan should reach £70 million.

BL strategy is based on two important principles - decentralisation and collaboration - which Sir Keith Joseph explained to the House of Commons on 26th January 1981 in his statement on BL:

"The plan was submitted in four business sections. The policy of the BL board has been - and will continue to be - to decentralise decision making to the operating units.

The intention of the board, as stated in the plan, is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL cars, Land Rover, Unipart and the Leyland Group. As the structure evolves so the progress of each business will be separately monitored.

"The board is meanwhile exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

'The board sees collaboration with other manufacturers as an important part of its strategy for recovery and reducing and eventually removing dependence on Government support. This might take the form of collaborations on 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 grow out of such collaboration''

(Hansard, 26th January 1981, Col. 637).

Within the main product groups of BL the following developments are envisaged:

BL Cars: The Triumph Acclaim (formerly Honda 'Bounty') - the first result of BL's willingness to collaborate, is due to be launched in the last part of 1981. The first of the LC10 medium-range vehicles - known as the LM10 - is due for launch in about two years time. Improvements to the Princess, Rover and Jaguar saloons and a convertible Jaguar XJS are planned. £930 million investment in total.

Land Rover: Stage II of the investment programme will go ahead - increasing capacity. £200 million total investment.

Leyland Group: (See 1980 developments above). Also plans for engines, gearboxes and axles are being developed in collaboration with other manufacturers. £430 million investment.

Unipart: Planned expansion through specialised franchises and joint ventures overseas.

BL Technology: Further work on R&D above all the 'economy vehicle programme'.

#### 4. The Government's Policy

The Government recognises that the provision of funds on anything like the scale requested by BL has significant implications for the profitable areas of the economy. Sir Keith acknowledged this, answering questions after his statement.

"The Government have to obtain the money that they spend . . . from taxing, borrowing or printing . . . certainly public spending of this order has an implication for the disposable income of the private sector, through which wages and taxable spending flow, and for the private citizen."  
(Hansard, 26th January 1981, Col. 639)

The Government has, however, approved the Corporate Plan and will provide £620 million in 1981-2 and £370 million in 1982-3. A number of factors bear on this decision. Though it is possible to dispute the number of jobs dependant upon BL's survival - a figure which is certainly much less than the 1 million claimed by the Opposition - it remains true that in a recession it would be difficult to imagine alternative sources of economic activity and jobs quickly taking the place of a liquidated BL. The Prime Minister in her 'Week-end World' interview (see also supra) noted that many firms in the motor car component industry supplied BL. However, Mrs. Thatcher continued:

"I do not think that at this moment we could have cut it off, but I disagree that we need to keep it going by government in perpetuity. It is being kept going so it can become very, very much nearer to complete efficiency, so that parts of it or the whole can be sold off, or we can get someone else to collaborate with the British Government and become perhaps 51 per cent owned . . . 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' judgement. He's the manager, I am not the manager."

Although Government - and the tax-payer - are thus inevitably involved in BL as a result of the Labour Government's acquisition of the company, Sir Keith Joseph has made it quite clear that he does not wish to interfere in the decisions proper to BL's management. The Government has, therefore, while deciding to transfer control over BL from the NEB to the Secretary of State for Industry when the Industry Bill becomes law (reflecting the wishes of the NEB and BL) in order to eliminate unnecessary complication in monitoring its activities, provided the two sizeable sums Sir Michael requested without involving itself in the direction of BL's strategy.

However, the Secretary of State has received a public letter from Sir Michael Edwardes, dated 26th January 1981, which recognises that the fate of BL is essentially in the hands of its management and work-force - not guaranteed by state funding. The letter's relevant paragraphs read as follows:

"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.

"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 Government made it clear at the time of the Second Reading of the Industry Bill in December last year that the token £1 million increase in the NEB's financial limit, for which the Bill makes provision, would be amended when the Government had concluded its consideration of BL's corporate plan and had made its decision upon the financing of future investment. It is against the background outlined above that that decision has now been taken.

CONFIDENTIAL

Ind. Parl.



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

29 January 1981

Peter Mason, Esq.,  
Private Secretary to the Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

2  
271

Dear Peter,

BL : FINANCIAL LIMIT

The Chancellor has seen Mr. Tebbit's letter of 27th January.

He recognises that the Government's decision to go for two-year funding for BL means that the initial tranche for BL is bound to be very large and to cover the bulk of the funding envisaged. Since it must cover all the private borrowing as well as the £990 million of public dividend capital, he accepts the upper limit of £1,400 million Mr. Tebbit proposed.

As for a second tranche, the objective is that the Government should divest itself of the BL shareholding as soon as possible. But the Chancellor recognises that there must be some statutory headroom to cover the remaining years of the Plan, and £350 million is broadly in line with the funding envisaged for the last three years of the Plan. He shares Mr. Tebbit's hope that if the second tranche proves to be needed at all the main call on it will be private borrowing.

On procedure he is content that Mr. Tebbit should go ahead as he proposed.

This approach to the financial limit has the merit of treating BL and Rolls Royce in the same way in the Industry Bill.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Duchy, Members of E Committee and Sir Robert Armstrong.

yours sincerely  
John Wiggins

A.J. WIGGINS

CONFIDENTIAL

HS



CC D/I  
CO

10 DOWNING STREET

*From the Private Secretary*

29 January 1981

BL: Financial Limit

The Prime Minister had a word with the Chancellor of the Exchequer this morning about Mr. Tebbit's letters of 27 and 28 January. This is to confirm that the Prime Minister reluctantly agrees that, if it is really necessary to increase the financial limit for BL by £1,750 million if further primary legislation is to be avoided in 1983, then that is the course that should be followed in the Industry Bill.

I am sending a copy of this letter to Peter Mason (Department of Industry) and David Wright (Cabinet Office).

J. P. LANKESTER

John Wiggins, Esq.,  
H.M. Treasury.

CONFIDENTIAL

9B

CONFIDENTIAL



From the  
Minister of State

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

28<sup>th</sup> January 1981

The Rt Hon Sir Geoffrey Howe MP QC  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*D Geoffrey,*

BL: FINANCIAL LIMIT

I understand that you have not yet taken a view on my letter of 27 January about the financial limits for BL to be incorporated in the Industry Bill. As you know, it is essential that a reference to the Report Stage should be included in the Business Statement tomorrow (29 January) if we are to stick to our present timetable.

2 It occurs to me that an additional factor we need to bear in mind is the political difficulty of not making legislative provision for more than two years now. New primary legislation in early 1983 would be within about a year of the last possible date for a General Election.

3 I do not think that providing for BL's financing requirements beyond the two years carries the necessary implication that we will provide further Government finance: the financing limit relates to the total external financing requirements of companies owned by the Secretary of State and might in principle, therefore, relate entirely to private sector finance.

4 Moreover, the proposed provision allows for a break-point at the end of two years with extension beyond that subject to affirmative resolution. So the Parliamentary interest is fully protected.

5 In view of the political aspect I am copying this letter to the Prime Minister in case she has any views on it in relation to the timing of a General Election. My own view is that on balance it would be best to go for the larger sum, avoiding the need of further embarrassing legislation whilst making it clear that this in no way presumes that further Government money will be provided.

*Am. Minister*

*The proposed increased financial limit of £1,700 is enormous. But it covers non-government finance as well, and it would last for more than 2 years. We could just provide for 2 years, but then primary legislation would be required in 1983 - before the election.*

*Agree - reluctantly  
not.*

*12*

*29/1*

*[Signature]*

NORMAN TEBBIT

CONFIDENTIAL



From the  
Minister of State

Norman Tebbit MP

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691  
SWITCHBOARD 01-212 7676

The Rt Hon Sir Geoffrey Howe MP QC  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

27<sup>th</sup> January 1981

*D. Geoffrey,*

BL: FINANCIAL LIMIT

You will recall that, following discussions in Legislation Committee, it was agreed that the Industry Bill should be published with only a token increase of £1 million for BL, so as not to prejudice our decisions on BL's Corporate Plan. An amendment would be tabled at Report Stage to allow for the appropriate increase.

Now that we have reached agreement in E Committee on BL's Corporate Plan, we need to agree a figure for this agreement, so that it can be tabled and taken at Report Stage in the week beginning 2 February. I should therefore be grateful for your agreement to my proposed increase for BL's share of the financial limit from the current level of £1500 million (within the NEB's total of £2250 million) to £3250 million. This would bring the aggregate limit in the Bill to £6000 million.

I also propose, in accordance with what we intend for Rolls Royce, to provide for staging of the BL limit. Thus, an increase of up to £1400 million will be available for the first stage, and the second stage will provide a further £350 million. I should emphasise that these figures cover BL's borrowing from the private sector not only in the next two years, but in subsequent years as well.



I have considered carefully whether we might have a legislative limit for two years only, with new primary legislation in 1982-83. I think that the best course is to confine the first stage to two years, which would cover the vast bulk of the funding requirement, both public and private. The second tranche of £350 million would provide some limited margin, particularly for private finance after 1982-83. It would also ensure that the Bill is treating BL and Rolls Royce in the same way for the purposes of the Bill. This should limit the scope for questions on our long-term intentions towards BL at the Report Stage of the Industry Bill.

To maintain progress towards our target of Royal Assent for the Bill by mid-March, we need Report Stage of the Industry Bill early in the week of 2 February. The timing of the Report Stage of the Industry Bill needs to be referred to in the Business Statement on 29 January. I should therefore be grateful for your agreement to what I propose not later than the morning of 29 January.

I am sending copies of this letter to the Prime Minister, to Francis Pym, members of E Committee and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT

ds

cc WOCH(L)  
WOCH(K)  
CO  
CPRS  
M/S B&P

LPO  
CDO  
FLO  
HO  
Press  
Wolfson  
Hoskyns

FILE

CONFIDENTIAL



CDL  
HMT  
DIN  
DOT  
MAFF  
DIEMP

(IND POL)

10 DOWNING STREET

From the Private Secretary

26 January 1981

Dear Sir,

I enclose the final version of your Secretary of State's Statement on BL for this afternoon as approved by the Prime Minister.

I am sending copies of this letter and enclosure to Private Secretaries to members of E Committee, the Chancellor of the Duchy, Lord Gowrie, the Chief Whips in both Houses, David Wright (Cabinet Office) and Gerry Spence (CPRS).

~ ~

Tin Loh.

Ian Ellison, Esq.,  
Department of Industry.

CONFIDENTIAL

ds



## REVISED DRAFT STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

I am making available in the Library of the House and in the Vote Office a Report by BL on its recent performance and details of the Corporate Plan.

The Plan contains BL's strategy for returning the company's businesses to viability in the medium term. It foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to de-centralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. As the structure evolves, so the progress of each business will be separately monitored.

Contd...



meanwhile  
The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"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 components/<sup>or</sup> on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might grow out of such collaboration."

The Government supports BL's intention of creating viable businesses and of attracting private capital into them. It has approved the Plan and has agreed to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620m in 1981/82 and £370m in 1982/83 - subject to regular monitoring by the BL Board of progress in achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company.

The Chairman's letter to me of 26 January, which I am publishing in full today in the Official Report and placing in the Vote Office, also makes it clear how the Board will respond if the chances of achieving the Plan's major objectives are appreciably reduced.

/He

He says that:

"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 and management have assured me that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it.

As I have already told the House, there will be an opportunity for full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I

/shall

- 4 -

shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's financial arrangements.

The Government wishes the BL Board and the company's employees well in their task.



## PRIVATE LETTER FROM SIR MICHAEL EDWARDES ON COLLABORATION

The Board undertakes to seek Government approval for the disposal of any significant equity holding in any of BL's major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would clear the principles of any such arrangements with the Government before reaching a position from which it might be difficult to withdraw. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable opportunities.



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

26 January 1981

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Dear Tim*

BL STATEMENT

... I enclose for information a copy of Michael Edwardes' letter to my Secretary of State of today's date to which direct reference is made in the statement. I am arranging for copies of this letter to be published in the Official Report and placed in the Vote Office in the House of Commons and the Printed Paper Office in the House of Lords.

2 I am copying this letter and enclosure to the private secretaries to the Earl of Gowrie, the Leader of the House, and to the Whips in both Houses.

*Yours sincerely,  
Michael Kenny.*

*CB*

CATHERINE BELL  
Private Secretary

TELEPHONE  
01-488 8000

RECEIVED IN
26 JAN 1981
SECRETARY OF STATE FOR INDUSTRY'S OFFICE

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

26th January 1981

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

*Her Secretary of State,*

TO <i>Mr Boarder</i>	COPIES TO
FOR APPROVAL (AND DRAFT REPLY IF APPROPRIATE)	<i>P/M</i> <i>P/M</i> <i>etc</i>
PLEASE BY:	<i>Mr Steele</i> <i>Mr Mountfield</i>
<i>Neer</i>	
<i>2/2/81.</i>	

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

The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

26th January 1981

Page 2.

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,  
Richard Lawson

TELEPHONE  
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

26th January 1981

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



The Rt.Hon. Sir Keith Joseph, Bt,MP,  
Secretary of State for Industry.

26th January 1981

Page 2.

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  
Richard Lawson

G. R.

PRIME MINISTER

I have spoken to Tim about the BL statement. He says that if the statement is unacceptable to you, then he would need to know pretty soon. If you decide that it is unacceptable, then the only way the statement could be strengthened is if you agree to meet with Sir Keith Joseph and Sir Michael Edwardes. As the statement is to be made tomorrow, a meeting would have to be arranged for tonight; therefore Tim would need to begin setting up such a meeting quickly.

Lillian

25 January 1981

**CONFIDENTIAL**

MR. LANKESTER

TL

2671

BL

PM approved

revised draft

2871

Following the Prime Minister's meeting on Friday evening, Robin Mountfield and I have discussed at length with Sir Michael Edwardes the changes she wished to incorporate in the draft Statement to be made on Monday 26 January. I attach a re-typed copy of the Statement and of the private letter on collaboration incorporating the changes the Prime Minister sought.

With considerable difficulty I have persuaded Sir Michael to accept all these changes except those in the extract (on page 3 of the Statement) from the letter he is to send about the circumstances in which his Board will review the Plan. On this he takes the view (and his Board concurs):

- a. That it is essential to leave an element of discretion with the Board about what constitutes a "substantial deviation in performance". This is indeed part of their essential responsibility as managers of the company; and
- b. That any such deviation must be judged to some extent in relation to how far it prejudices the achievement (current as well as eventual) of the Plan.

He has in mind, for example, that an adverse deviation in the market share might be offset by a favourable one in realised price. He has however agreed - with marked reluctance - to a formulation of this extract (which I attach) which uses all the words the Prime Minister sought, and none of those (e.g. about the Board's opinion) to which she objected; but does so in a changed order. It is true that this revised order does go some way to restore the link between a substantial deviation in performance and the achievement of the Plan. But it does this in the matter which is relatively objective and which emphasises the current achievement

/of

**CONFIDENTIAL**

of the Plan not some ultimate and long delayed achievement. In any event (as Edwardes acknowledges) the Government retains the ability to conclude from its own monthly monitoring of BL that performance is going badly wrong and to insist on the Board's carrying out a review: but it would be as undesirable from the Government's as from BL's point of view to stress this publicly since it would detract from the Board's authority (for instance with the unions) and put the Government in the front-line.

I have shown these texts to the Secretary of State for Industry and explained the above points to him. He has asked me to say that he commends these wordings to the Prime Minister as securing the essential objectives, and as going as far as it is reasonable or judicious to press Edwardes. Edwardes has emphasised that he has found it very difficult to accept several of the points incorporated recently in the Statement and in the letters he is asked to send; and that if further changes were proposed he would need to see the Prime Minister himself to discuss the position.

I am sending copies of this minute and attachments to Sir Keith Joseph, Sir Robert Armstrong and Robin Ibbs.

*R. Armstrong*

✓ PETER CAREY

01-852-71471 - R  
 647-1570

24 January 1981

→ | Edwardes says  
 develops  
 his authority  
 call it cut-throat

REVISED FORM OF QUOTATION FROM BL'S LETTER ON PAGE 3  
(as acceptable to Sir Michael Edwardes)

"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."

↑  
cannot  
achieve

① — text still links "deviation in performance" to achievement of the Plan

②

within the  
cash

agreement

↳

↳ the company  
considers necessary  
as put out in letter

~~within the cash~~

~~Government~~

~~provision~~

(But this wasn't in)



## REVISED DRAFT STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

I am making available in the Library of the House and in the Vote Office a Report by BL on its recent performance and details of the Corporate Plan.

The Plan contains BL's strategy for returning the company's businesses to viability in the medium term. It foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to de-centralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. As the structure evolves, so the progress of each business will be separately monitored.

Contd...



meanwhile  
The Board is exploring a variety of possible forms of collaboration,  
and has written to the Government in the following terms:

"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 components/<sup>or</sup> on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might grow out of such collaboration."

The Government supports BL's intention of creating viable businesses and of attracting private capital into them. It has approved the Plan and has agreed to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620m in 1981/82 and £370m in 1982/83 - subject to regular monitoring by the BL Board of progress in achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company.

The Chairman's letter to me of 26 January, which I am publishing in full today in the Official Report and placing in the Vote Office, also makes it clear how the Board will respond if the chances of achieving the Plan's major objectives are appreciably reduced.

/He



- 3 -

He says that:

"In section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance or any appreciable departure from the assumptions underlying the Plan, whether relating to internal or external factors, would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business. This could arise for example if there were a major strike which damaged or appeared certain to damage any substantial sector of the business."

The Board and management have assured me that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it.

As I have already told the House, there will be an opportunity for full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I

/shall





shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's financial arrangements.

The Government wishes the BL Board and the company's employees well in their task.



## PRIVATE LETTER FROM SIR MICHAEL EDWARDES ON COLLABORATION

The Board undertakes to seek Government approval for the disposal of any significant equity holding in any of BL's major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would clear the principles of any such arrangements with the Government before reaching a position from which it might be difficult to withdraw. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable opportunities.

A REVIEW  
OF  
BL PERFORMANCE IN 1980  
AND  
THE BL 1981 CORPORATE PLAN

BL Ltd

23 January 1981

## INTRODUCTION

1 In December 1979, staff of the National Enterprise Board (NEB) produced a Report for Parliament entitled "BL Ltd - Performance in 1979 and the 1980 Corporate Plan and Budget". This present document, which has been prepared by BL, is intended to fulfil the same function in respect of the company's performance in 1980 and the 1981 Corporate Plan. In preparing this Report, BL have paid great attention to reviewing performance and describing the 1981 Corporate Plan objectively.

2 Several factors affecting BL's 1979 performance resulted in their 1979 Plan being no longer achievable:

- . the strengthening of sterling, affecting margins and sales, not only on exports but also in the UK because of the extra strength this gave to importers;
- . a drop in BL's UK market share for both cars and trucks, partly due to the strength of importers;
- . the deteriorating economic outlook for the world as a whole.

3 In producing their 1980 Corporate Plan, the company undertook a reappraisal of the business. The Plan submitted to the NEB in the Autumn of 1979 set out a major programme of restructuring, involving plant closures and reductions in the workforce, as well as investments in new models and facilities. The company's objectives were to:

- . continue investments essential to BL's future,
- . reduce fixed costs by closing factories and by trimming expenses,
- . reduce inventory levels,
- . reach competitive standards in all respects.

4 Associated with the 1980 Corporate Plan was a request for Government funding of £297m in 1980. BL also envisaged a need for a further £133m between 1981 and 1983. After giving careful consideration to the Plan, the Government agreed to make available to BL up to £300m in the financial year 1980/81. This was to be in the form of an immediate injection of £150m of equity finance together with the provision of a credit line facility of up to a further £150m, also in equity form, to be drawn on by the company on evidence of need. At the same time,

Government loans to the company in previous years, amounting to £150m, were to be converted to equity. The Government also expected BL to contribute to their funding needs from internal sources including the disposal of assets where this made commercial sense.

5 The Government's decision took account of Sir Michael Edwardes' letter of 19 December 1979 to the Secretary of State for Industry assuring him that, if the Government decided to support the Plan, the Board and management would pursue it with the utmost vigour. However, Sir Michael's letter also said that, if there were a significant shortfall in cash flow, whether due to major disruptions through internal or external strikes, or to delays in any of BL's programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board would abandon the Plan. In the event, BL have remained within the Government funding available to them in 1980, by taking action to achieve economies over and above those envisaged in the Plan, in order to offset shortfalls in sales and the worse economic climate.

PERFORMANCE IN 1980

FINANCIAL INDICATORS

Profits

6 The table below compares Profits (Losses) before Interest and Tax, and Losses after Extraordinary Items, for the first half of 1980 with those for the full years 1978 and 1979.

PROFITS	Full year 1978 £m	Full year 1979 £m	First half 1980 £m
(LOSS)/1978 profit BEFORE INTEREST AND TAX - before exceptional manpower reductions	71.3	(46.2)	(93.4)
* Exceptional manpower reductions	13.6	10.0	16.8
Interest payable less receivable	56.0	66.0	44.7
Taxation charge	12.6	6.3	1.0
Minority interests	2.1	3.0	2.7
** Extraordinary items	24.7	13.0	22.9
<u>(LOSS) AFTER EXTRAORDINARY ITEMS</u>	<u>(37.7)</u>	<u>(144.5)</u>	<u>(181.5)</u>

\* Exceptional manpower reductions refers to costs incurred in reducing manpower in those plants which continue in operation.

\*\* Extraordinary items are mainly the costs of closure of plants or companies where operations are being discontinued.

7 Profits in the first half of 1980 were affected by a loss in UK market share and a decline in export sales volume. A major factor, affecting not only BL but manufacturing industry generally, has been a deterioration in UK competitiveness. The strength of sterling has not only reduced export volumes and profits but has also served to make the UK an even more attractive and increasingly profitable market for imports. In 1980, this has led to intense competition in the domestic market, requiring BL to increase their marketing action and costs. Since at present about 95% of all materials bought by BL (and this material accounts for over half BL's costs) is bought in the UK, the company has not been able to offset the effect of the strong pound on export revenues by benefitting from consequently lower imported material and component costs. The effect of deteriorating competitiveness was serious in the first half of the year and became even more severe in the second six months.

8 BL's 1980 Corporate Plan assumed an average value of the pound of \$2.15 in 1979 and \$2.10 in 1980. These assumptions were in line with various published forecasts. In fact in November 1979 the pound had dropped to \$2.13 from a peak of \$2.26 in July 1979. This decline was reversed during 1980, when the pound averaged \$2.33.

9 Similar movements occurred in the trade weighted index. The 1980 Plan assumed an average index of 69 for the pound in both 1979 and 1980. In practice the pound declined slightly in the second half of 1979 resulting in an average for the year of 68 and rose in 1980 to a peak of 80, resulting in an average for the year of 75. The effect of these changes, and UK price inflation relative to other countries, has been a decline in UK competitiveness of 13% in 1979 compared with 1978, and 17% in 1980 compared with 1979. Against Japan the figures are even more dramatic - 26% in 1979 and 24% in 1980. (The 1980 figures are based on BL's forecasts for the full year).

#### Sales Revenue

10 Sales revenue suffered from lower-than-planned sales volumes in both the UK and export markets.

SALES REVENUE	Full year	Full year	First half
	1978	1979	1980
	£m	£m	£m
UK	1715	1759	841
Overseas	1358	1231	580
Total	3073	2990	1421
of which direct exports from UK	910	865	450

UK sales dropped 18% compared to the first half of 1979 and overseas sales 9%. In the same period the effective exchange rate of the pound increased by 11%.

#### Capital Expenditure

11 Capital expenditure was £121m for the half year, compared with £109m for the same period in 1979. The full year figure is likely to be below the Plan level of £330m but above 1978/1979 figures of £233m and £259m respectively. This is because, in order to conserve cash, BL have deferred capital expenditure and made savings wherever this was possible, without jeopardising the programmes which are crucial to the company's recovery.

12 During 1980, the NEB, and, where this was required, the Secretary of State, approved a number of capital expenditure programmes. The most important were for a new Jaguar engine and an expansion plan for Ashok Leyland, India. The BL Board approved the first stage of the medium car (LC10) programme, and submitted this to the Secretary of State for Industry.

### Funding

13 As noted in paragraph 4, in approving the 1980 Plan the Government made available £300m of new funds to BL in 1980. In spite of the adverse economic circumstances BL were able to contain their drawings to this amount.

### PHYSICAL INDICATORS

#### Product and Facility Actions

14 The most encouraging feature of 1980 has been the bringing on stream of new models and facilities.

15 The following major new products have been launched.

- . Morris Ital
- . TR7 convertible
- . Metro
- . T45 Roadtrain truck - further versions
- . B45 Double Deck bus - Olympian
- . T43 Landtrain truck - further versions

16 Largely in association with new products, new manufacturing and technical facilities are coming on stream. These include:

- . new body plant and improved vehicle assembly and engine production facilities at Longbridge, including those for the Metro,



- . new paint plant and refurbished body facilities for the BL/Honda 'Bounty' programme at Cowley, Oxford,
- . new assembly hall, test track and technical centre for Leyland Vehicles at Leyland, Lancashire,
- . new test track and test facilities for cars at Gaydon, Warwickshire, the new headquarters of BL Technology,
- . new Land Rover engine plant and Range Rover assembly plant at Solihull.

17 The company's restructuring, which was the cornerstone of the 1980 Plan, was aimed at increasing efficiency and thus competitiveness. This has involved the closure of some facilities, stopping some products and the reorganisation of parts of the business. The main actions have been:

- . the Park Royal bus plant has been closed and Titan production is being transferred to Workington,
- . the Albion plant is being reorganised to specialise in axle production: assembly of Albion trucks has been transferred to Bathgate,
- . vehicle assembly operations have ceased at Canley - TR7 has been transferred to Solihull and production of Dolomite and Spitfire has ceased,
- . production of MGs at Abingdon has ceased,
- . production of Rover car bodies has been transferred from Castle Bromwich to Cowley, and parts of Castle Bromwich have been closed.

#### Market Share and Sales Volumes

18 1980 began with low market shares in the UK for both cars and trucks, and reductions in most export markets including Europe. The car market share in January was only 15% and it remained below the average for 1979 in every month up to September except March, which saw the culmination of a sales campaign. However the launch of the Metro in October brought an improvement in BL's car market share to 22.2%, with the Metro taking 4.5% although it was only on sale for part of the month. The recovery continued in November, with Metro at 7.5% and total BL Cars at 21.9%, and in December, with Metro at 10.5% and total BL Cars at 22.2%. Although Metro cannot be expected to hold 10.5%, it will continue to make an important contribution to market share.

19 Although Leyland Vehicles sales included the T45 Roadtrain, this was initially available in only one top-weight version which competed in a small sector of the market. Nevertheless Leyland Vehicles share of the truck market improved in the second half of the year, compared with the first half, and can be expected to improve further as additional versions of the T45 become available.

UK MARKET SHARE %	1978	1979	1980		Total
			1st Half	2nd half	
BL Cars	23.4	19.6	17.9	18.7	18.2
Imported Cars	49.1	56.3	57.6	55.5	56.7
Leyland Vehicles	19.1	17.3	16.8	18.1	17.3
Imported Trucks	18.5	20.7	22.7	19.1	21.3

20 The UK car and the UK truck markets fell compared with 1979 - the car market by 12% and the truck market by 23%. This has been a bigger cause of the drop in sales volumes than BL's smaller share of the car market.

21 There have been sales successes in addition to the improved UK market share for both cars and trucks in the second half of 1980. For example, vehicle sales in South Africa and India have improved compared with 1979, as have worldwide sales of Land Rover, despite increased competition. This reflects the increased availability of this model.

WORLD SALES VOLUMES ('000)	1978	1979	1980*
BL Cars	702	583	470
Land Rover	59	57	60
BL Commercial Vehicles	52	53	45
Other and Consolidation	(16)	0	4
Total company	797	693	579

\* Estimate

## Industrial Relations

22 The table below compares hours lost through disputes and vehicles lost through strikes in 1980 with those in 1977, 1978 and 1979.

DISPUTES	1977	1978	1979	1980
Man-hours lost through disputes (millions)				
- internal	14.8	10.0	13.5*	3.5
- external	12.2	0.5	1.3	-
- total	27.0	10.5	14.8	3.5
Man-hours lost as a percentage of available time (%)	5.9	3.5	5.1	1.4
Vehicles lost through strikes (000)				
- internal	192.9	117.9	113.0	48.7
- external	58.6	13.4	10.8	0.7
Stoppages of one hour or more (internal)	582	584	548	252

\* includes 8.7 million hours lost as a result of the CSEU dispute

23 There has been a continuing improvement in the dispute record. In 1979 the CSEU dispute accounted for 8.7 million man-hours lost. Without this, man-hours lost would have been only 6.1 million or 2.1% of available time. Man hours lost in 1980 amounted to only 1.4% of available time. Excluding the CSEU strike each year since 1977 has been an improvement over the one before.

24 In Leyland Vehicles the 1979 pay round negotiations were successfully concluded on a plant by plant basis but followed a broadly similar pattern. Basic rates were increased by an average of 7.5%. Incentive schemes, based on improvements in performance, were amended to provide a potential additional earnings capability of approximately 14% of basic earnings.

25 Although the ballot of BL's workforce in October 1979 showed a large majority in favour of the company's proposed recovery plan, it proved impossible to negotiate agreement with BL Cars hourly paid workers on the reforms of working practices, the increase in basic wages (5% to semi-skilled and 10% to skilled) and the productivity bonus scheme, which were an integral part of the recovery plan. After five months of negotiation the company decided to implement the package unilaterally. This caused a

strike on 9 April 1980. 1.1 million man-hours were lost before work was resumed on 19 April. The new working practices were implemented and have led to improved efficiency.

26 The company's 1980 pay round in BL Cars was successfully concluded in November with a general increase in pay of 6.8%. Although this offer was originally opposed by shop stewards and notice of a strike was given, this notice was withdrawn and settlement reached after further discussions.

27 The satisfactory pay settlement and the general acceptance of new working practices have been achieved against a backcloth of major work-force reductions and plant closures.

28 BL Cars announced a programme of staff reductions amounting to 4000 people, and over half of these left the company during 1980 under voluntary arrangements. Leyland Vehicles reduced their staff by 500 in 1980, and anticipate a similar reduction in 1981. The changes in staff in 1980 are included in the total manpower figures in the table below.

WORLDWIDE MANPOWER ('000)	Dec 77	Dec 78	Dec 79	Dec 80*
Total employees	198	187	169	141
Reduction in year		11	18	28

\* estimate

#### Productivity

29 BL's reduction in manpower has been undertaken in the light not only of reduced sales volumes but also of historical overmanning. This reduction is now permitting the majority of BL Cars and Leyland Vehicles employees to earn a productivity bonus. During 1980 employees in 25 out of 34 plants in BL Cars earned a bonus ranging up to £10 a week in one or more months. In November 1980 employees in 11 plants, employing 60% of BL Cars hourly paid employees, earned a bonus which averaged £2.40 a week. All Leyland Vehicles employees earned a bonus at some time during the year, the average being 7% of basic pay.

30 BL's productivity in 1980 was badly affected by falling demand for cars and trucks. Manpower was reduced by a combination of normal leavers, voluntary and compulsory redundancy, with a fall in BL Cars of 23,600 and in LVL of 1,900 people. Even this, however, was not enough to help keep pace with the fall in demand. Consequently it was necessary to introduce short-time working in most plants.

31 A further factor affecting production in BL Cars was that the work practice changes could not be introduced until May. Nevertheless, after allowing for planned short time working, BL Cars productivity was in accordance with the Plan.

BL CARS PRODUCTIVITY	1979	1980	% change 1980 over 1979
Vehicles per man per year	5.2	5.0	-4%
Vehicles per man per year (after allowing for planned short time working)	5.2	5.7	+10%

These productivity figures include all BL Cars component operations and are therefore not directly comparable with those of other manufacturers.

32 Worldwide production for Cars, Land Rover and BL Commercial Vehicles is shown below:

PRODUCTION ('000)	1979	1980		
		1st half	2nd half	Total
BL Cars	549.0	247.6	194.7	442.3
Land Rover	54.1	30.9	29.1	60.0
BL Commercial Vehicles	53.0	25.2	18.0	43.2
BL International	6.2	3.2	3.1	6.3
Less KD to Overseas Mfg	(4.3)	(2.3)	(2.3)	(4.6)
Total	658.0	304.6	242.6	547.2

The drop in production was due primarily to a fall in demand for cars and trucks, and the need to control cash flow through reductions in stocks of finished vehicles.

#### Disposals

33 The strategy of raising cash by means of disposals was established in last year's Plan under the following headings.

- Divestment of those companies and manufacturing divisions outside the mainstream activities.

. Sale of property assets surplus to requirements.

34 The 1980 Corporate Plan included £50m cash raised from disposals, £19m in 1980 and £31m in 1981. Despite a worsening economic climate, BL have more than met their 1980 objective. £25m has already been raised and firm offers have been received worth a further £8m. In the present economic and industrial climate companies are naturally proving difficult to sell.

## THE 1981 PLAN

### THE APPROACH TO THE PLAN

35 BL's 1981 Corporate Plan maintains the same primary objectives of survival and recovery as earlier Plans. The company still aims to turn around those parts which are now unprofitable so that in a five to ten year period the company will achieve business results of a standard which will attract external funds on normal commercial terms. In attaining this standard, the company will seek to remain a major force in the European automotive industry.

36 In quantified terms, the company aims to attain a return on assets (PBIT) of not less than 15% in a five to ten year period.

37 In order to achieve these objectives, the company will intensify its efforts to achieve improved performance standards (eg productivity, fixed costs) and in response to a lower sales base will further rationalise products and manufacturing facilities. As a means of identifying more clearly the varying requirements of each of the product companies, BL have prepared their 1981 Plan in four main parts, covering the main businesses of BL Cars, Leyland Group (commercial vehicles), Land Rover, and Unipart (components).

### THE ECONOMIC AND MOTOR INDUSTRY OUTLOOK

38 The economic environment in which the company has to operate has deteriorated since the 1980 Plan was prepared, and there has been a very large decline in UK competitiveness, as measured by the sterling exchange rate and price inflation in the UK relative to other countries. The outlook for the world and UK economies are now forecast by BL to be much worse than they were seen to be in 1979 when the 1980 Plan was prepared.

39 BL's 1981 Plan is based on the assumption that United Kingdom competitiveness will deteriorate further in 1981, and not return even to the 1980 level within the next five years. UK inflation

is expected to reduce from 1980 levels but to remain significantly higher than in all the countries of BL's major competitors except Italy. The trade-weighted exchange rate is assumed to fall from its average of 75 in 1980 (and its present level of 80) to an average of 74 in 1981 (compared with 67 in the same year in the 1980 Plan) and to 65 by 1985.

40 BL's financial performance is very dependent on the actual value of the pound compared to the Plan assumptions. The Plan is designed to counter this risk as far as possible, but the strong pound is the main reason for the deterioration in future cashflow compared with the 1980 Plan projection and for the consequent need to ask for Government funding additional to that in the 1980 Plan.

41 On the outlook for the motor industry, the Plan forecasts that the demand for vehicles in all major world markets will be lower than the forecasts used in earlier Plans. This not only means direct reductions in demand, but that competition between manufacturers will become even more intense.

#### FUNDING

42 BL's request for Government funding amounts to £990m over the next two Government financial years and the plan indicates a need for a further £150m thereafter. The phasing of this is as follows:

	£m
1981-82	620
1982-83	370
1983-84)	
)	150
1984-85)	

In addition, BL will continue to look to private sector sources for loans to supplement this equity funding.

43 The Plan involves considerable extraordinary and exceptional expenditure totalling £320m. Most of this will occur in the early part of the Plan period to cover restructuring - including the redundancy programme and factory closures.

#### PROFITABILITY

44 The Plan envisages diminished losses for BL as a whole in 1981 and 1982, and a return to profitability thereafter. Land



Rover and Unipart are projected to remain profitable throughout the period. BL Cars, owing to the extreme competitive pressure in the UK and in export markets, is expected to make substantial losses in 1981 and 1982 but to become profitable within five years. The Leyland Group results show a loss in 1981 and a modest profit thereafter.

#### DISPOSALS

45 The 1981 Plan continues the policy identified in the 1980 Plan of the disposal of major non-mainstream interests. Estimated proceeds over the period of the Plan are £70m. Given the current economic circumstances, this sum will be spread over the next three years. The increase is mainly accounted for by the identification of further assets for disposal.

#### PRODUCT AND FACILITY PLANS

46 In broad terms the approach to product and facility plans is to:

- . further rationalise and simplify the product range to match the scale of the business, and to obtain competitive economies of scale for each model/component family,
- . further rationalise manufacturing facilities, improve and simplify the flow of materials/parts/components between plants and maximise capacity utilisation.

#### BL Cars

47 Following the successful launch of the Metro, attention is now being concentrated on the Triumph Acclaim (the Bounty programme) which is due for launch in the fourth quarter of 1981 and on the development of a new family of medium-sized vehicles (LC10), of which the first (LM10) is due for launch in about two years time. There will also be improvements to the Princess, Rover and Jaguar saloons, and a convertible version of Jaguar XJS. In order to reach competitive economies of scale, plans for engines and gearboxes are being discussed in collaboration with other manufacturers. These planned actions, and others which will occur in later years, will renew the BL product range. The programme of regular improvements and replacements will ensure that it remains fully competitive.

## Land Rover

48 The £200m investment programme approved for Land Rover in 1979 continues with Stage II, involving further capacity expansion and product development.

49 The first part of this expansion scheme is now coming on stream, at a time when there is a recession in the market. Although it has not been possible fully to utilise the new capacity immediately, it has enabled more vehicles to be produced and sold. Substantial improvements in productivity have also been secured. Thus Land Rover, which is profitable even during the recession, will be very well placed to take advantage of increased demand when the recession ends.

## Leyland Group

50 The intention is that the Leyland Group Plan will be developed further in the first few months of 1981 to reflect the new structure. The main actions planned so far include the completion of the truck product replacement programme (T45 and T43 families), relaunch of the Titan double deck bus at Workington, launch of a new coach chassis and the development of a rear-engined coach and a range of front-engined buses. Plans for engines, gearboxes and axles are being developed in collaboration with other manufacturers.

## Unipart

51 Unipart is concerned with the manufacture and distribution of car replacement parts and accessories for servicing BL and other makers' vehicles, the manufacture of parts having high aftermarket potential and the provision of components to BL and other companies. Unipart is planning to expand its activities by means of specialised franchises and joint ventures overseas. It is profitable now and will be more so when the recession ends.

## CAPITAL EXPENDITURE

52 Capital expenditure over the years 1981-85 is projected to be £1650m, including £110m for expansion in India, which will be financed locally. Of this total, some £930m is for BL Cars, £200m for Land Rover, and £430m for the Leyland Group. In 1981 capital expenditure is forecast to be £335m.

## MANPOWER

53 Following the large-scale reductions in manpower of 1979 and 1980, manpower is forecast to drop further in 1981.

## COSTS

54 BL must continually improve cost-competitiveness. Although fixed costs have been reduced they need to be reduced further to line up with competition. Moreover, the disadvantage of falling UK competitiveness has to be countered. The Plan sets out the measures which will have to be taken to reduce costs to competitive levels:

- . rationalisation to match production to demand,
- . reductions in staff,
- . improvements in productivity,
- . control of purchased material prices to internationally competitive levels,
- . greater economies of scale in purchased parts by buying each part from a single source and standardising where possible,
- . economy in use of utilities (fuel, rates and transport) and resistance to price increases where possible.

## QUALITY AND RELIABILITY

55 Continued attention is being paid to improving further the quality and reliability standards of BL products in order to improve the appeal of the older products, and to establish from launch the reliability of new models - as has been done with the Metro. In particular, technical audits of new products will be carried out by BL Technology staff at every stage of the design, development and production of new models and components, and full use will be made of the new test facilities. In addition, investment will be made in new, uprated and improved product engineering facilities.

## COLLABORATION

56 In 1980, BL have given high priority to finding partners for various forms of collaboration and have had discussions with many potential partners, exploring a wide range of collaborative

possibilities. An important feature of the 1981 Plan is the continued emphasis placed on the potential importance of collaborative deals - although it is also recognised that the development of such deals is a slow and difficult business. Collaboration can develop on several levels: on relatively minor components, as a temporary feature to fill an immediate product gap, or as a more long-term joint development of two or more companies. BL are investigating all three possibilities.

57 The most extensive arrangement so far negotiated and announced, with Honda, is for BL to produce the Triumph Acclaim (codenamed Bounty) at Cowley. BL will have exclusive marketing rights for this car in the European Community ("the Nine"); in Greece, and in Spain and Portugal if they join the Community, BL will be able to market the car in competition with Honda.

#### RESEARCH AND DEVELOPMENT

58 BL Technology was formed as a separate company in June 1979 with the following objectives.

- . To provide test and development facilities and other services to the BL Cars companies, and to work closely with the BL Cars and LVL companies in support of their engineering programmes and manufacturing technology requirements.
- . To undertake technical audits of BL's products and components and of design, development and manufacturing processes.
- . To develop, promote and monitor a long term technological strategy for BL Ltd and to undertake advanced engineering in new product and manufacturing technologies.

59 The economy vehicle programme (ECV) is the cornerstone of the BL Technology research and development programme, in that it acts as the focus for several related technologies. The search for reduced fuel consumption in cars involves research on engines, alternative fuels, transmissions, aerodynamics, vehicle weight and rolling resistance. The ECV programme can test the inter-relationship of these factors, and in addition, ensure that adequate account is taken of safety, refinement and cost/weight standards. Two vehicles have been built as mobile test-beds and others are planned. The lessons learnt from these experimental vehicles will be incorporated in the development of future cars and other vehicles.

60 In the Leyland Group, the Advanced Technology Department is responsible for identifying, communicating and developing advances in technology which will affect commercial vehicle business and investment plans. It will be working in the following fields.

- . Diesel engine technology
- . Vehicle electronics
- . Ride and handling
- . Vehicle weight reduction
- . Quiet commercial vehicles
- . Human factors
- . Electric vehicles
- . Transmissions
- . Transportation studies
- . Advanced manufacturing technology

61 This extensive programme of research and development for both Cars and Commercial Vehicles, and the momentum which it is now gathering, will provide the necessary high level of technical support for the vital product and facility programmes of the four BL Companies.

RV  
26

## REVISED DRAFT STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

I am making available in the Library of the House and in the Vote Office a Report by BL on its recent performance and details of the Corporate Plan.

The Plan contains BL's strategy for returning the company's businesses to viability in the medium term. It foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to de-centralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. As the structure evolves, so the progress of each business will be separately monitored.

Contd...

meanwhile  
The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"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 components/<sup>or</sup> on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might grow out of such collaboration."

The Government supports BL's intention of creating viable businesses and of attracting private capital into them. It has approved the Plan and has agreed to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620m in 1981/82 and £370m in 1982/83 - subject to regular monitoring by the BL Board of progress in achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company.

The Chairman's letter to me of 26 January, which I am publishing in full today in the Official Report and placing in the Vote Office, also makes it clear how the Board will respond if the chances of achieving the Plan's major objectives are appreciably reduced.

/He

He says that:

"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 and management have assured me that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it.

As I have already told the House, there will be an opportunity for full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I

/shall



shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's financial arrangements.

The Government wishes the BL Board and the company's employees well in their task.



## PRIVATE LETTER FROM SIR MICHAEL EDWARDES ON COLLABORATION

The Board undertakes to seek Government approval for the disposal of any significant equity holding in any of BL's major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would clear the principles of any such arrangements with the Government before reaching a position from which it might be difficult to withdraw. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable opportunities.

PRIME MINISTER

cc: Mr. Hoskyns  
Mr. Wolfson

B.L. STATEMENT

I have been in touch with the Department of Industry, the Policy Unit, the CPRS and the Treasury about your comments on the draft statement.

The crucial point about collaboration is that any particular collaboration arrangement should not make it more difficult to achieve a full-scale sale or merger. But it is extremely unlikely that full-scale sale or merger can be achieved in one go: partial collaboration arrangements will have to come first before a potential buyer, at least in the case of volume cars, is prepared to put in a major stake. This involves risks insofar as, once a potential arrangement is entered into, the options for merger or sale are narrowed. But these can at least be minimised by ensuring that the Government first reviews and then has the final say before any collaboration arrangement - which might have wider implications - goes ahead.

Sir Keith and the Chancellor and everyone else closely concerned believe that we must intensify the pressure on BL to move towards merger/disposal, and that the statement should include references to collaboration - even though the E minutes record you as saying in your summing up that "it might be better if neither the statement nor the letter referred to the possibility (of collaboration) at all". But they all agree with you that the question of what say the Government has in all this must be strengthened. As you pointed out, giving the Government "an opportunity to express its views" is quite inadequate.

The use of the vague word "collaboration", which can cover anything from an exchange of know-how on some tiny component to a major share disposal, is deliberate. We obviously want to leave BL free to enter into minor, technical collaborations; but we also want to indicate - without quite spelling it out - that BL is "for sale".

/ I attach

I attach revised draft texts for your consideration. The key point about Government consent for collaborations is covered in the draft private letter from Edwardes at Annex B. We have also dealt with your point that it is a platitude to say that disposal of shares in BL requires Government consent. But they can, in law, dispose of shares in subsidiaries; we have therefore kept consent for such disposals in.

As regards the statement, there are a number of minor drafting changes - including one or two suggested by Mr. Pym. We have struck out the paragraph which said that "The Government also endorses the Board's strategy of pursuing wide-ranging collaborations, for each of the businesses", and have slightly modified the other draft letter from Edwardes - which is to be quoted - on possible forms of collaboration.

Other points are:

1. You struck out the phrase "regular monitoring by the Board" on the grounds that the Government should do the monitoring. We could just say "regular monitoring". But Edwardes apparently attaches great importance to giving the impression that monitoring will be done primarily by the Board; otherwise, he fears that the unions will think that the Government are taking over responsibility for ensuring that the plan is fulfilled (if that is possible). The revised text keeps the words "by the Board", but also includes a sentence on Government monitoring.
2. You questioned the sentence on page 4 - "and the Government will not stand in the way of decisions". This is indeed a sweeping assertion, and has been taken out.
3. Robin Ibbs wants the section in Edwardes' letter on deviation from the Plan strengthened. His point is that a "substantial deviation in performance" should automatically trigger a review of the Plan, and that it should not be left - as the present draft implies - to the Board's judgement whether such a review should be initiated. Edwardes is prickly about the precise wording here.

/ I think

I think Robin's point can be met by the addition of a single comma after "performance" - which hopefully Edwardes will accept.

R

23 January 1981



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

23 January 1981

Tim Lankester Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

*p.c.*

*Dear Tim*

I attach a revised version of the draft statement on BL which has been approved by my Secretary of State. This includes as many as possible of the suggested amendments put forward by the Prime Minister and by the Chancellor of the Duchy. As you know, my Secretary of State considers after careful reflection that it is necessary to retain at least some reference to collaboration.

Copies of this letter and the draft statement go to John Wiggins (Treasury) and Robin Birch (CDL).

*Yours ever*

*Ian*

I K C ELLISON  
Private Secretary

CONFIDENTIAL



## DRAFT STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

As the House knows, the Government has recently been considering BL's Corporate Plan which contains BL's strategy for returning the company's business to viability in the medium term. The Plan foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I am making available in the Library of the House and in the Vote Office a Report by BL on its recent performance and details of the Corporate Plan.

/The ...

CONFIDENTIAL



The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis.

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"The Board sees collaboration with other manufacturers as an important part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620 million in 1981/82 and £370 million in 1982/83 - subject to regular monitoring by the BL Board of progress in substantially achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.





The Chairman's letter to me of 23 January, which I am publishing in full today in the Official Report and placing in the Vote Office, also makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance, or any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business."

See my  
covering  
note.  
TL

The Board and management have indicated that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it.

/As ...



As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's financial arrangements.

The Government wishes the BL Board and the company's employees well in their task.



Annex B

DRAFT PRIVATE LETTER FROM SIR MICHAEL EDWARDES ON COLLABORATION

The Board undertakes to seek Government approval for the disposal of any significant equity holding in any of BL's major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups, which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would clear the principles of any such arrangement [before [any firm commitment was made] The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable collaboration opportunities.

before making a position from it  
might be difficult to withdraw.

CONFIDENTIAL



*in the Hon*

*CF*

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

*Ma.*

PRIME MINISTER

*R  
23/1*

BL

In his minute of 22 January Keith Joseph pointed out that there is a penalty in removing all reference to collaboration from next week's BL announcement. In my view there is a strong case for making our policy of attracting private capital and seeking partnerships for BL as convincing as possible in our public presentation.

2. Nevertheless the fear expressed at E yesterday that BL could lock us into collaborative arrangements which might not be in the interests of the Government or the taxpayer remains valid. I welcome the proposal that the statement should endorse a policy of collaboration, but that Michael Edwardes should give a private written assurance on coming to the Government before the Board makes firm commitments on disposals and collaboration.

3. I am content therefore that the statement should indicate our general support for collaboration, and with the terms of Annex B.

4. On a separate point I am concerned that the references to funding for the next two years taken with the proviso of regular monitoring by the BL Board could leave the impression that only BL were concerned with their own progress.

5. The Government has a vital interest, both as shareholder and paymaster. I suggest that this passage should add the

/words "in consultation

CONFIDENTIAL



words "in consultation with the Government" before "by the BL Board". The plain implication is, as it must be, that if progress is substantially off course the provision of funds is not automatic either this year or next.

6. I am sending copies of this minute to members of E Committee, Francis Pym, George Younger, Sir Robert Armstrong and Robin Ibbs.

*Indygin*

for

(G.H.)

23 January 1981

(approved by the Chancellor &  
signed in his absence)



PRIME MINISTER

*Tym - we specifically request the reference to collaboration. (M)*  
*(i) it would tie the Government's hands and*  
*Prime Minister approve revised draft*  
*(ii) the meaning of statement?*  
*not even defined. Duty Clerk 22/1*  
*Please look through for comments and check to minutes. Am*

BL

At the E Committee this morning, we agreed to approve the BL Corporate Plan on the basis proposed in the draft statement attached to my minute of 21 January, subject to two important changes:

(a) the letter to be sent by Michael Edwardes on the circumstances which would cause a review of the Plan should make plain that any "substantial deviation" in performance, as well as any change in the prospects of achieving the Plan's objectives, would lead to such a review of the relevant business group's plan;

*very worried about some parts of the statement - not.*

(b) reference to collaboration should be removed from the statement because of the fear that partial collaboration in particular parts of BL might militate against disposal or a comprehensive collaboration likely to lead to disposal; and might therefore tie the Government's hands in its objective of disengaging itself as soon as possible from BL.

... 2 I attach at Annex A a revised draft of my statement incorporating the text of the letter which Michael Edwardes will send to me to implement these tougher conditions (the relevant insertions are underlined). On reflection I do not think the second change is realistic: we cannot freeze entirely BL's ability to make normal commercial decisions, nor can we foretell what will preclude what



and it is very much in our interest to give a clear and public indication of our wish that BL should seek a comprehensive partnership. What I propose, after discussion between officials in the Department and the CPRS, is that the reference to collaboration in the statement should stand, and that there should be a

... separate letter (Annex B) from Edwardes undertaking to consult the Government in good time about any disposal of equity, or any particular collaborative arrangement, which might preclude a more general disposal or comprehensive collaboration likely to lead to disposal. This letter would of course remain private.

*!! Surely he needs our consent.*

3 I believe these proposals secure so far as is practicable the objectives we identified at E Committee this morning. In order to leave time for Michael Edwardes to send me the two letters, it would be helpful to have your confirmation and that of colleagues that you are content by tomorrow evening, 23 January.

4 I am sending copies of this minute and enclosures to members of E Committee, Francis Pym, George Younger, Sir Robert Armstrong and Robin Ibbs.

Department of Industry  
Ashdown House  
123 Victoria Street

*Catherine Bell*

pp K J  
(Approved by the Secretary of State and signed in his absence)



## STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

The Plan submitted to the Government foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings and to facilitate collaboration with other vehicle manufacturers and the introduction of private equity capital. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I shall shortly, in accordance with usual practice, make available in the Library of the House and in the Vote Office, a Report on BL's recent performance and details of the Corporate Plan. In the light of the declared position of the NEB vis-a-vis BL, to

/which ...

What do you mean  
by "collaboration"?  
We really must delete  
the phrase "collaboration"  
because it is  
decided against  
by our hands in  
this way





which I shall refer later, this Report has been prepared by BL.

The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis, so that the company will in future lean less heavily on public finance.

A. The Government also endorses the Board's strategy - clearly stated in the Plan - of pursuing wide-ranging collaboration for each of the businesses.

For this purpose

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

No - we should specify this

"The Board sees collaboration with other manufacturers as a central and integral part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years



of the Plan (including the first phase of the LC10 programme) - that is £620 million in 1981/82 and £370 million in 1982/83 - subject to regular monitoring by the BL Board of progress in substantially achieving the Plan. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.

*Surely  
we monitor*

The Chairman's letter to me of 22 January, which I am publishing in full today in the Official Report, makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance or any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business."



The Board and management have indicated that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it; and the Government will not stand in the way of such decisions.

*We cannot  
commit  
ourselves to this  
unwise proposal.*

As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's present financial arrangements.

The Government wishes the BL Board and the company's employees well in their ~~difficult~~ task.

*(Not difficult - concerned with those who  
haven't got a job - subsidy of £1 billion)*



## PRIVATE LETTER FROM EDWARDES ON COLLABORATION

We should  
consult the  
A-G about this.  
See note below  
The Board does  
not own  
the shares.  
msh.

①

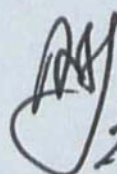
The Board undertakes to seek Government approval for the disposal of any significant equity holding in BL Ltd or any of its major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would give the Government an opportunity to express its views before any firm commitment was made. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable collaboration opportunities.

This  
do.

① Surely this undertaking is <sup>superfluous</sup> unnecessary.  
The govt (and the NER) owns the shares.  
The management of BL are not in a position to dispose of what ~~is~~ is not their property, i.e. the shares, nor can they issue further equity shares without Govt's consent.

Please retain both copies  
(original comments on both copies.)

  
26/1



PRIME MINISTER

*Tim - we specifically requested the reference to collaboration. It would be the Government's hands and Prime Minister approve revised draft*

BL

*(is the meaning of statement? not even defined. Duty Clerk 22/1 Please look through for comments and check to minutes. Am not*

At the E Committee this morning, we agreed to approve the BL Corporate Plan on the basis proposed in the draft statement attached to my minute of 21 January, subject to two important changes:

*very worried about some parts of the statement - not.*

(a) the letter to be sent by Michael Edwardes on the circumstances which would cause a review of the Plan should make plain that any "substantial deviation" in performance, as well as any change in the prospects of achieving the Plan's objectives, would lead to such a review of the relevant business group's plan;

(b) reference to collaboration should be removed from the statement because of the fear that partial collaboration in particular parts of BL might militate against disposal or a comprehensive collaboration likely to lead to disposal; and might therefore tie the Government's hands in its objective of disengaging itself as soon as possible from BL.

2 I attach at Annex A a revised draft of my statement incorporating the text of the letter which Michael Edwardes will send to me to implement these tougher conditions (the relevant insertions are underlined). On reflection I do not think the second change is realistic: we cannot freeze entirely BL's ability to make normal commercial decisions, nor can we foretell what will preclude what



and it is very much in our interest to give a clear and public indication of our wish that BL should seek a comprehensive partnership. What I propose, after discussion between officials in the Department and the CPRS, is that the reference to collaboration in the statement should stand, and that there should be a

... separate letter (Annex B) from Edwardes undertaking to consult the Government in good time about any disposal of equity, or any particular collaborative arrangement, which might preclude a more general disposal or comprehensive collaboration likely to lead to disposal. This letter would of course remain private.

!! Surely he needs our content ref.

3 I believe these proposals secure so far as is practicable the objectives we identified at E Committee this morning. In order to leave time for Michael Edwardes to send me the two letters, it would be helpful to have your confirmation and that of colleagues that you are content by tomorrow evening, 23 January.

4 I am sending copies of this minute and enclosures to members of E Committee, Francis Pym, George Younger, Sir Robert Armstrong and Robin Ibbs.

Department of Industry  
Ashdown House  
123 Victoria Street

*Catherine Bell*

PP

K J

(Approved by the Secretary of State and signed in his absence)

## ANNEX A



## STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

The Plan submitted to the Government foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings and to facilitate collaboration with other vehicle manufacturers and the introduction of private equity capital. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I shall shortly, in accordance with usual practice, make available in the Library of the House and in the Vote Office, a Report on BL's recent performance and details of the Corporate Plan. In the light of the declared position of the NEB vis-a-vis BL, to

/which ...

*What do you mean  
by - collaboration?  
We really must delete  
the phrase needed as  
because cabinet  
decided of course  
by our hands in  
the way*





① private collaboration necessary  
② implementation of these  
needs are not fixed.

which I shall refer later, this Report has been prepared by BL.

The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis, so that the company will in future lean less heavily on public finance.

The Government also endorses the Board's strategy - clearly stated in the Plan - of pursuing wide-ranging collaboration for each of the businesses.

For this purpose

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"The Board sees collaboration with other manufacturers as a central and integral part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

No - we  
Sincerely  
regard  
this  
This is  
not  
the  
main  
point  
of  
the  
matter.

You have  
stated that  
collaboration

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years

we  
are  
not  
handy



of the Plan (including the first phase of the LC10 programme) - that is £620 million in 1981/82 and £370 million in 1982/83 - subject to regular monitoring ~~by the BL Board~~ of progress in substantially achieving the Plan. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.

The Chairman's letter to me of 22 January, which I am publishing in full today in the Official Report, makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance or any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business."



The Board and management have indicated that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it; and the Government will not stand in the way of such decisions.

*We cannot  
commit  
ourselves to this  
unrevised proposition*

As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's present financial arrangements.

The Government wishes the BL Board and the company's employees well in their ~~difficult~~ task.

*(Not difficult - concerned with those who  
have not got a job - subsidy of £1 billion)*



We should  
consult the  
A-G about this.  
See note below  
The Board does  
not own  
the shares.  
mb.

PRIVATE LETTER FROM EDUARDES ON COLLABORATION

① The Board undertakes to seek Government approval for the disposal of any significant equity holding in BL Ltd or any of its major subsidiaries. (Muthfield)

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would give the Government an opportunity to express its views before any firm commitment was made. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable collaboration opportunities.

This do.

① Surely this undertaking is superfluous. The Govt (A-G & NCB) own the shares. The management of BL are not in a position to dispose of what is not their property, i.e. the shares, nor can they issue further equity shares without Govt's consent.

but not with  
him  
himself



PRIME MINISTER

*Tim - we specifically regret the reference to collaboration. It would tie the Government's hands and* Prime Minister

*But are we now saying we actually don't or don't want to talk about BL want collaboration or don't want to talk about it.*

*(ii) the meaning of statement? not well defined. Duty Clerk 22/1 Please look through for comments and check if needed. Am sent*

At the E Committee this morning, we agreed to approve the BL Corporate Plan on the basis proposed in the draft statement attached to my minute of 21 January, subject to two important changes:

(a) the letter to be sent by Michael Edwardes on the circumstances which would cause a review of the Plan should make plain that any "substantial deviation" in performance, as well as any change in the prospects of achieving the Plan's objectives, would lead to such a review of the relevant business group's plan;

(b) reference to collaboration should be removed from the statement because of the fear that partial collaboration in particular parts of BL might militate against disposal or a comprehensive collaboration likely to lead to disposal; and might therefore tie the Government's hands in its objective of disengaging itself as soon as possible from BL.

*very worried about some parts of the statement - m.f.*

2 I attach at Annex A a revised draft of my statement incorporating the text of the letter which Michael Edwardes will send to me to implement these tougher conditions (the relevant insertions are underlined). On reflection I do not think the second change is realistic: we cannot freeze entirely BL's ability to make normal commercial decisions, nor can we foretell what will preclude what



and it is very much in our interest to give a clear and public indication of our wish that BL should seek a comprehensive partnership. What I propose, after discussion between officials in the Department and the CPRS, is that the reference to collaboration in the statement should stand, and that there should be a

... separate letter (Annex B) from Edwardes undertaking to consult the Government in good time about any disposal of equity, or any particular collaborative arrangement, which might preclude a more general disposal or comprehensive collaboration likely to lead to disposal. This letter would of course remain private.

!! Surely  
he  
needs  
our  
content  
not

3 I believe these proposals secure so far as is practicable the objectives we identified at E Committee this morning. In order to leave time for Michael Edwardes to send me the two letters, it would be helpful to have your confirmation and that of colleagues that you are content by tomorrow evening, 23 January.

4 I am sending copies of this minute and enclosures to members of E Committee, Francis Pym, George Younger, Sir Robert Armstrong and Robin Ibbs.

Department of Industry  
Ashdown House  
123 Victoria Street

*Catherine Bell*

PP

K J

(Approved by the Secretary of State and signed in his absence)

## ANNEX A



## STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

The Plan submitted to the Government foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. ~~The Plan was submitted in four business sections.~~ The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses ~~to enable management to concentrate on well-defined product groupings and to facilitate collaboration~~ with other vehicle manufacturers and the introduction of private equity capital. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I shall shortly, in accordance with usual practice, make available in the Library of the House and in the Vote Office, a Report on BL's recent performance and details of the Corporate Plan. In the light of the declared position of the NEB vis-a-vis BL, to

/which ...

What do you mean  
by "collaboration?"  
We really must delete  
the phrase "collaboration"  
because Cabinet  
decided against  
it on grounds of  
the way



which I shall refer later, this Report has been prepared by BL.

The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis, so that the company will in future lean less heavily on public finance.

A The Government also endorses the Board's strategy - clearly stated in the Plan - of pursuing wide-ranging collaboration for each of the businesses.

For this purpose

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

No - we  
seriously  
regret  
this  
No more

"The Board sees collaboration with other manufacturers as a central <sup>(in part)</sup> and integral part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years





of the Plan (including the first phase of the LC10 programme) - that is £620 million in 1981/82 and £370 million in 1982/83 - subject to regular monitoring by the BL Board of progress in substantially achieving the Plan. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.

*Surely  
it's  
critical*

The Chairman's letter to me of 22 January, which I am publishing in full today in the Official Report, makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance or any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business."



The Board and management have indicated that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it; and the Government will not stand in the way of such decisions.

*We cannot  
commit  
ourselves to this  
unwise proposition*

As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's present financial arrangements.

The Government wishes the BL Board and the company's employees well in their ~~difficult~~ task.

*[Not difficult - concerned with those who  
have lost jobs - subsidy of £1 billion]*



We should  
consult the  
A-G about this.  
See note below  
The Board does  
not own  
the shares.  
mkt.

PRIVATE LETTER FROM EDUARDES ON COLLABORATION

①

The Board undertakes to seek Government <sup>consent</sup> approval for the disposal of any significant equity [holding in BL Ltd] or any of its major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would <sup>just obtain the consent of</sup> give the Government an opportunity to express its views before any firm commitment was made. !! The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable collaboration opportunities.

~~This is not do.~~

① Surely this undertaking is <sup>superfluous</sup> ~~is unnecessary.~~  
The govt (or the NETs) own the shares.  
The management of BL are not in a any  
position to dispose of what ~~is~~ is not-  
their property. i.e. the shares, nor can they  
issue further equity shares without Govt's  
consent.

PART 4 ends:-

E (81) 3<sup>rd</sup> Mtg LCA

PART 5 begins:-

S/S Ind to P.M 22/1/81