PREM 19/803

PART 6 ends:-

SS DoI to PM

29-7.82

PART 7 begins:-

WR to PM

2. 8 .82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (82) 4th Conclusions, Minute 4	4.2.82
CC (82) 5th Conclusions, Minute 4	11.2.82

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

Signed AWayland Date 13 September 2012

PREM Records Team

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.

H.C. Third Report from Industry and Trade Committee, Session 1981-82
BL Limited
HMSO, 10 February 1982

Signed AWayland Date 13 September 2012

PREM Records Team

20

JU572 SECRET AND PERSONAL

Prime Minister (1)

I see that Sir Austin Bide is only giving 50% of his time to BL but that £65,000 seems full-time rate?

Agree the proposals in para 4?

MLS 29/7

PRIME MINISTER

BL

I am grateful for your agreement that the general approach by the BL Board to the succession and privatisation issues described in my minute of 23 July is acceptable. I have also obtained Sir Michael Edwardes' assent to the two amendments which the Chancellor, in his letter to me of 28 July, suggested should be made to the letter which Sir Michael proposes to send me confirming the Board's position on these matters.

2 I have received today from Sir Michael a letter (a copy of which is attached) reporting that Sir Austin Bide and Sir Robert Hunt are ready to take on the non-executive Chairman and Deputy Chairman roles respectively on his departure from BL. This should ensure that the Board's commitment not to seek further funds for BL in addition to those already identified will be durable and unequivocal.

3 While the appointment of a new BL Chairman requires my approval, the actual process of appointment and the terms and conditions involved are a matter for the BL Board. Sir Michael is not therefore seeking my agreement to the £65,000 annual fee which is intended should be offered to Sir Austin Bide. However, remuneration at this level does not seem unreasonable given that he already receives about the same amount as non-executive Chairman of Glaxo. Moreover, I understand that a survey of

For how much time?

I should have thought the 'profit' (or loss) record was as important as the turnover.

directors' remuneration recently carried out by the Charterhouse Group on companies reporting in 1981 shows that the prevailing level of remuneration for part-time chairmen in companies with a turnover in the range of £360 million - £3,460 million was £60,000. BL's turnover is about £3,000 million, and, more importantly, the responsibilities of the Chairman will continue to be arduous. BL would plan to announce the new appointments on 1 September, but they would not be announcing the new Chairman's salary at that time. As BL is a Companies Act company, this would be disclosed in the usual way in their Annual Report and Accounts for 1982.

4 If you agree, I now propose to tell Sir Michael Edwardes that I am willing to approve the appointment of Sir Austin Bide as non-executive Chairman, that I am content that Sir Robert Hunt should be appointed Deputy Chairman and that Mr David Andrews and Mr Ray Horrocks should assume their new Chief Executive roles. I would propose to tell him at the same time that his draft letter on the funding and privatisation issues accurately reflects the Government's understanding of the position and provides an acceptable basis for developing BL's 1983 Corporate Plan.

5 I am copying this minute to Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

July 1982

Department of Industry
Ashdown House
123 Victoria Street

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

The Rt Hon Patrick Jenkin, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

29 July 1982

Dear Patrick,

I am pleased to report that I have now agreed with Austin Bide and Bob Hunt that they are ready to take on the non-executive Chairman and Deputy Chairman roles respectively. I will put this (formally) to my Board as soon as I know that you support what we have in mind.

I have talked to Austin on a provisional basis about the terms and conditions of his appointment (and of course about those which flow from it), though these remain to be confirmed by the Board. The intention is that he should be appointed for an initial period of two years. He and I will agree on a phasing programme.

He would remain non-executive Chairman of Glaxo but would be able to devote around 50% of his time to the BL job, with accessibility at virtually all times, but with Bob Hunt providing cover particularly when Austin is abroad. On this basis, the intention is to offer Austin a fee of £65,000 per annum - in line with earnings of part-time Chairmen in other major UK companies.

As you know, the matter of remuneration is left to the Board under our Memorandum of Understanding - though clearly you will want to be aware of our intentions as regards the Chairman's fee. As soon as we have your reaction to this, I will involve my Board and proceed with the settlement of detailed terms with Austin - as well as of course with Bob Hunt-and with David Andrews and Ray Horrocks in their

......./

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

29 July 1982

new Chief Executive roles. We plan to announce the new appointments and the consequential organisational changes on 1 September. We want to separate this from the privatisation and half year issues, which will be dealt with two weeks later.

As regards these related issues of funding and privatisation, I hope we can now finalise the proposed exchange of letters so that we can clear up all the major outstanding issues in the next few days.

Yours sincerely
Robert

SECRET AND PERSONAL

Prime Minister (2)

Good points.

MCS 29/7

Ind Pol.

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

28 July 1982

Dear Patrick

BL

I have seen a copy of your minute of 23 July to the Prime Minister.

I agree that the general approach adopted by the BL Board is satisfactory. Subject to two small additions, mentioned below, I agree that the draft statements meet our requirements on privatisation and funding, provided that Sir Austin Bide, or failing him, one of the existing non-executive directors, agrees to serve as Chairman.

My two additions relate to points 4 and 5 of BL's assumptions. BL assume that the Government does not proceed with total disposal of Land Rover in 1983. This is correct provided that satisfactory progress is made towards the agreed alternative privatisation strategy. If not I think that we must retain the right to revert to our original proposals on Land Rover. Accordingly I would like assumption 4 to read:

> "that the Government does not proceed with its proposal for the total disposal of Land Rover in 1983 while satisfactory progress is being made towards the achievement of (a) and (b) below".

My second proposal concerns assumption 5, which is that the Government agrees to provide the £150M equity foreseen in previous Plans for the post March 1983 period, but abated by estimated proceeds from minority sales, subject to Government approval of the 1983 Corporate Plan. As you know, BL has so far not required, as quickly as originally envisaged, the initial £990M to fulfil previous Plans; and there is a strong possibility that £100M of this amount will slip into the next financial year. I hope that it may be possible to achieve the 1983 Corporate Plan without putting in as much as another £150M, abated by minority sale proceeds. I would like to register this point now and so would propose that assumption 5 reads as follows:

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

I am copying this letter to the Prime Minister, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE

29 JUL 1982

cc HMT
D/EMP
DOT
CO
CPRS

Ind Pol
18

SECRET AND PERSONAL

da

10 DOWNING STREET

From the Private Secretary

26 July 1982

Your Secretary of State minuted the Prime Minister on 23 July about the next steps in relation to BL.

The Prime Minister considers that the general approach by the BL Board to the matters described in your Secretary of State's minute is acceptable.

I am sending copies of this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

SECRET AND PERSONAL

& JU

17

JF1207 SECRET AND PERSONAL

TOTAL COPIES 14

COPY No. 1

Prime Minister (1)

Agree this general approach?

MCS 23/7

Regretfully - Yes. not

PRIME MINISTER

BL

Further to my minute of 9 July, I have now received from the BL Board the promised draft formal commitment on collaboration and privatisation, a copy of which is attached.

2 As you will see, it consists of two parts, namely a draft letter from Sir Michael Edwardes conveying a formal and confidential undertaking to the Government on these matters, and a draft public statement which he would propose to make at the time of the announcement of BL's half-yearly results on 15 September.

3 As you will see is implied in assumption 1 on page 1 of the draft, he has not so far obtained the agreement of Sir Austin Bide to serve, if required, as the non-executive Chairman of BL after his departure; Sir Austin has asked for more time to consider this, and will give his answer in the last week of July. In other respects, however, I think that the draft statements go a long way to meeting our requirements both on privatisation and the end of Government funding. Assumption 5 and objective (a) on page 2 of the draft state clearly that the £150m Government funding requirement envisaged in the last two Corporate Plans will be the last, that there will be no further need for funds for operation of the business after the 1983-84 financial year, and that the £150m itself is likely to be significantly reduced by proceeds from the sale of minority interests.

4 I note your comments (conveyed in your Private Secretary's letter of 12 July) that there is an inconsistency between the assertion that this will be the last injection of funds, and the continuance of the Varley-Marshall-Joseph assurances to creditors, but I do not think that this is so. So long as the business does not collapse, the assurances will not be triggered; but any action in the near future on our part to remove the assurances might actually bring about a collapse. Assuming that the business continues, the Board have given a commitment that they will be seeking to reduce the scope of the assurances as far as possible. With regard to your other point about "reconstruction" of the balance sheet, I think that paragraph (ii) on page 3 of the draft makes it clear that no net cash outflow for the Government would be involved as the outlay would be recovered by the proceeds of disposal, and that in any case this funding would be entirely at the option of the Government.

5 With regard to collaboration and privatisation, you will see that Michael Edwardes and his Board are prepared to go much further in the confidential statement (objective (b) on page 3 of the draft) than in the public statement. This is because of the commercial sensitivity of the issues from the point of view of BL's dealers, bankers and potential collaborators.

6 I shall let you know as soon as I have any further news from Michael Edwardes about Sir Austin Bide's position. Meanwhile, I

SECRET AND PERSONAL

hope that you and other colleagues will be able to agree that the general approach by the BL Board to all these matters is acceptable.

7 I am copying this minute to Geoffrey Howe, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

23 July 1982

Department of Industry
Ashdown House
123 Victoria Street

DRAFT LETTER FROM SIR MICHAEL EDWARDES

LETTER TO THE RT HON PATRICK JENKIN, MP
SECRETARY OF STATE FOR INDUSTRY

CONFIDENTIAL

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

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

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

1 that the Board will be able to propose one of the present non-executive directors as Chairman (we aim to respond to you on this during July);

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

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

4 that the Government does not proceed with its proposal for the total disposal of Land Rover in 1983;

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

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

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

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

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

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

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

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

RLH
15.7.82

FOR HALF YEAR STATEMENT

PRIVATISATION

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

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

15.7.82

RECEIVED IN
26 ...
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

26th January 1981

TO Mr Bowder
FOR ... (DRAFT REPLY IF APPROPRIATE)
PLEASE BY: Noon 2/2/81.

COPIES TO
PS/MT
PS/MM
PS/SEC
Mr Steele
Mr Mountfield

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

Dear Secretary of State,

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

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

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

Continued

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

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

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

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

Yours sincerely
Michael Edwardes.

Ind Pol da
bc J.V. 16

10 DOWNING STREET

From the Private Secretary

12 July 1982

BL

The Prime Minister has seen your Secretary of State's minute of 9 July about recent developments in your Secretary of State's discussions with the BL Board.

The Prime Minister notes that the next step will be a draft formal commitment from the Board as set out in paragraph 6 of your Secretary of State's minute.

The Prime Minister has commented that there is an inconsistency between asserting that the £150 million identified in the last two Corporate Plans is the last BL requirement for funds and the assertion that the Government's guarantee of BL's credit would remain after the time of this last injection of funds from the Government. The Prime Minister has further commented that a "reconstruction" of the balance sheet would also be inconsistent with the £150 million being the last requirement for funds.

I am sending copies of this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

cc J.V.

Ind Pol

JU415 SECRET AND PERSONAL

TOTAL COPIES 13

COPY No. 1

15

PRIME MINISTER

To say that £150m is the last requirement for funds but that the fast guarantee must remain is surely a contradiction in terms - as is the "reconstruction" of the balance sheet.

MT

Prime Minister

The next step will be a draft formal commitment from the Board, as in para 6; then you may wish a discussion with colleagues, unless agreement can be reached in correspondence.

MCS 9/7

BL

I have seen your Private Secretary's letter of 7 July recording the discussion which you had with the Chancellor and me on 6 July.

2 I am writing in order to bring you up-to-date with events at my subsequent meeting with the BL Board on 6 July, and to outline the likely course of developments on the BL front over the next few weeks.

3 I had a productive meeting with Michael Edwardes and his Board at which I told them that I had been substantially convinced by the Board's view that the early privatisation of Land Rover would overall be detrimental rather than beneficial in terms of public finance, and that in consequence I intended to set this proposal to one side for the present. However, I wished to pursue the alternative which he had put forward of specific proposals for collaboration with other manufacturers or for partial privatisation, and in particular the timescale of these. I also said that I attached great importance to the Board's firm commitment not to ask for any additional Government finance beyond the £150 million identified in the last two Corporate Plans less the net proceeds from sales of minority stakes, and that this commitment should be independent of BL's success in

turning their ideas on collaboration ~~in~~ into reality. The £150 million referred to was, of course, in addition to the £990 million of public funding for BL which Keith Joseph announced in January 1981, and would depend on approval of the 1983 Corporate Plan. Michael Edwardes assured me that the Board's commitments on funding would continue beyond his own departure, and he readily agreed that the best way of ensuring this was to choose a successor to him from among the existing Board members. He told me outside the meeting that he would be prepared to go to enormous lengths to try to persuade Sir Austin Bide or Sir Robert Hunt to take on the chairmanship.

4 In further discussion, the Board asked me whether a clear commitment to no further Government funding after the £150 million would preclude a reconstruction of BL's balance sheet at a later date if this were necessary to permit a successful privatisation of BL as a whole; this was the only exception the Board would contemplate to their commitment on the ending of Government funding. I said that if necessary a form of words would need to be found to cover this point, and this would have to be applied to as precise a set of circumstances as possible.

5 On the question of the Varley/Marshall assurance which was the other important topic which I discussed with the Board, I should perhaps point out that your Private Secretary is not quite right in attributing to me the remark that BL would accept that the Government's guarantee of their credit would lapse at the time of the last injection of funds from the Government. Our objective

I think this is a fair criticism. MLS

will, of course, be to end BL's present dependence on this assurance at the earliest opportunity, but this will have to be done progressively; if, for example, the Unipart company were clearly viable at the point of sale of a 40 per cent stake, the Varley/Marshall assurance might well cease to be relevant to its particular circumstances.

6 The next steps with BL will be as follows. Michael Edwardes has promised to let the Department have by the end of the week beginning 12 July a draft public statement on collaboration and privatisation which he would propose to make at the time of the announcement of BL's half-yearly results on 15 September. I also expect him to let me know next week whether Sir Austin Bide or Sir Robert Hunt is willing to serve as non-executive Chairman of BL when he leaves BL at the end of the year. If these matters can be satisfactorily resolved, and the Government is in agreement, Michael Edwardes would hope to make an announcement about the succession by the end of July. I have told him that before the Government could reach a conclusion on all these matters, I would need first to consult my colleagues, and that I would want to seek their agreement to what was proposed before the end of July.

7 I am sending copies of this minute to Geoffrey Howe, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

9 July 1982

Department of Industry

SUBJECT cc Master

File

cc: HMT
D/Trade
D/Emp
CPRS
Co

B.L.

14

10 DOWNING STREET

From the Private Secretary

7 July 1982

bc: Mr. Vereker

BL

The Prime Minister had a word with your Secretary of State yesterday morning about BL. The Chancellor of the Exchequer was also present.

Your Secretary of State said that, after careful consideration by himself and by officials, he had come to the conclusion that the disposal of Land Rover would impose substantial additional costs on the remainder of BL, and that these additional costs would more than offset over the years to 1986 the amount which might come from a Land Rover sale. The analysis, which led him to the conclusion that Land Rover disposal should be set to one side, was set out in a paper circulated by your Secretary of State at the meeting, and attached to this letter.

Your Secretary of State said that he had had a series of discussions with Sir Michael Edwardes and what BL was proposing was a privatisation programme based on a series of collaborative arrangements. In the cars business (Cars and Unipart Group) they were envisaging a minority stake of around 25% from Honda in Austin Rover during 1983/84; in Jaguar a stake of around 25% from BMW also during 1983/84; and the flotation or placement of 40% of Unipart shares in 1984. In the commercial vehicles business (Leyland and Land Rover Group) they were envisaging a stake by Volvo in 1983/84. Your Secretary of State circulated the attached letter from BL dated 2 July (pointing out that the possibilities related to International Harvester at the bottom of page 2 had fallen away, and been replaced by the Volvo proposal mentioned above). What was envisaged was that, following the successful conclusion of these collaborative arrangements, BL would proceed to full privatisation of the Group as a whole via two major groups: the first consisting of Austin Rover and the second of Land Rover with trucks/buses. There would be problems about the allocation of assets and liabilities as between these groups, but these would, no doubt, not be insoluble. The Group would receive the £150 million which had been earlier envisaged, less the cash proceeds from the sale of Unipart. They would commit themselves to this being their last injection of funds from the Government, and they would accept that the Government's guarantee of their credit would lapse at this point. As to Sir Michael Edwardes' successor, your Secretary of State said that he strongly preferred a non-executive Chairman, and was at present thinking that Messrs. Horrocks and Andrews would, under such a Chairman, run

/ the

the businesses. He had it in mind to tie the new Chairman down to a strict time limit, perhaps of 15 months, for the negotiation of the collaborative arrangements.

In discussion, the Prime Minister and the Chancellor of the Exchequer noted that there was a ring of familiarity about these proposals. It was much to be regretted that the sale of Land Rover had not gone ahead in 1979, as the Government had desired. There would be advantage in pushing ahead with this sale now, since early privatisation offered the best prospect for a profitable Land Rover company with an appropriate level of investment. On the other hand, the cash-flow arguments which the Secretary of State had presented were persuasive. On the privatisation plan, there was a good deal of doubt about the practicability of what was envisaged. Would the prospective collaborators actually be prepared to put up any cash? Would they do so once it was made clear to them (and it would be important to make this clear both to the potential collaborators and publicly) that the £150 million less the proceeds of Unipart was the end of Government financial support to the Company? It was hard to resist the conclusion that, once again, the prospect of privatisation was being pushed away - this time, it seemed, to 1984 or later. Finally, there must be considerable doubt about the durability of the present Board's commitment not to seek fresh funding, once the new Chairman was in place. It would be only too easy to argue if, say, one of the elements in the collaboration programme fell away, that a new situation had arisen, and that some fresh funding was required to bring about a successful privatisation.

Summing up the discussion, the Prime Minister said that it would be worth investigating with the Board the prospects for achieving a privatisation programme on the lines which your Secretary of State had set out. It would be essential to secure an unequivocal and durable commitment on the part of the present Board that they would seek no further funds after the £150 million less the proceeds of Unipart. What was required was an earnest of the Board's good faith. Although the present members of the Board would no doubt say that their continued membership of the Board provided such an earnest, the best way forward might be for one of their number to take over the Chairmanship. Sir Austin Bide or Sir Robert Hunt seemed the most likely candidates. Your Secretary of State should explore with the Board the possibility of securing a firm, unequivocal and public commitment on this and on a tightly timetabled privatisation programme. Your Secretary of State should conduct these discussions without commitment, making it plain that, before the Government could reach a conclusion on these matters, he would need first to consult his colleagues.

I am sending a copy of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office). I should be grateful if you and they would give this letter the usual limited circulation.

MS

Jonathan Spencer, Esq.,
Department of Industry.

SECRET

Handed round at Prime Minister's BL Meeting on 6 July 82.

MCS

13

EFFECTS OF AN EARLY PRIVATISATION OF LAND ROVER

1 BL argue that separation of Land Rover will impose substantial additional costs on the remainder of BL. If we wish them to continue with the recovery programme for the remander of BL, therefore, they argue that we shall have not only to provide the £150m for which they have already stated their need, but also recompense their balance sheet for these additional costs to which the proceeds from Land Rover itslef will make only a contribution.

Assessment of BL's Case

2 I told Sir Michael on 27 April (as recorded in my Private Secretary's letter of 6 May) that if the net proceeds of sale fell short of £150m the Government would be prepared to discuss with BL how any financing gap might be filled. I also told him that we had not reached the conclusion we had on the basis of zero or negative net proceeds. If it became clear that would indeed be the outcome, then Ministers would obviously have to look again at the whole question of disposal, or at least of its timing. Since BL's advice is that the net proceeds would indeed be strongly negative in cash terms for the remainder of BL, we clearly have to consider how firmly based their advice is and what account we need to take of it.

3 BL's figures (at Table 1) are founded on merchant bank advice as to the price they might obtain in 1983; on estimates of the costs in loss of synergy between Land Rover and the rest of the company; and for all other matters on the projections in the 1982 Corporate Plan. As regards the first, I am satisfied that the figures (derived from separate but similar advice from Kleinwort Benson and Hill Samuel, which my officials have examined) are realistic estimates. As regards the synergy losses, BL were reluctant initially (for reasons I respect) to put figures on these costs because of their speculative nature. The costs might be less than the indicated range if Land Rover were sold to a non-vehicle UK company who continued to distribute through BL; but against this, the sale proceeds would be much reduced if we restricted the sale to UK companies and excluded the most likely purchasers, foreign vehicle manufacturers. On the other hand, the costs might be much higher if sale of Land Rover were generally perceived as "writing off" the recovery

prospects of the rest of BL. After enquiry I am satisfied however that the estimates provided are not unreasonable at least for the first few years before the scale of the business can be adjusted to the new situation. As to the use of the Corporate Plan projections, it can be argued that more optimistic assumptions would produce better results or alternatively that the figures quoted are all well within the margins of error; I do not think either view is justified, particularly given the scepticism we have normally and wisely brought to our consideration of BL's commercial prospects.

4 , BL's estimates of the cost of separating Land Rover are slightly inflated because of the need they see to restore the debt/equity gearing ratios projected for BL, after the loss of the Land Rover assets and earnings. I do not think this addition is justified; the maintenance of arbitrary debt/equity ratios is to a large extent an academic nicety given the present situation of BL.

5 I do, however, think we have to acknowledge three major categories of cost:

(a) the loss of cash flow from Land Rover (£108m up to 1986); on Corporate Plan assumptions, which we believe broadly justified on current judgements, Land Rover cash flow was due to recover sharply, partly through profitability improvement as Land Rover's recent heavy capital investment programme pays off, and partly because the capital programme is itself past its peak and using less cash. It is obviously true that sale of a profitable asset will deprive the seller of the future stream of profits; and the cash flow loss is particularly serious in the years in question for the reasons just stated;

(b) the costs of "loss of synergy" (£50-90m up to 1986); these are basically lost profits hitherto earned by Unipart and by wholly-owned car distribution companies in Europe from Land Rover sales. The higher end of the range allows also for possible loss of sales by the Leyland Group through the weakening of distribution companies in Africa hitherto dependent on Land Rover as well as on Leyland Group volume for viability.

(c) possible higher interest costs (£15m up to 1986) as a result of having to refinance certain medium term loan stocks. BL's Counsel's advice is inconclusive as to whether Land Rover sale would trigger mandatory repayment under the trust deed. (BL also claim on additional £18m interest cost on borrowing to replace the Government equity refused. This item is irrelevant to a calculation of what Government equity is needed to offset the effects of Land Rover sale on the rest of BL and is anyway inconsistent with their claim that they could not borrow on the gearing ratios resulting from the sale and refusal of Government equity.)

These figures are summarised in Table 2.

6 These factors taken together more than offset, over the years to 1986, the amount (£110-145m) which might come from the proceeds of a Land Rover sale (though the phasing of the shortfall is likely to be concentrated in the later years of the period as the sale proceeds come at the start). It thus seems inescapable that, if we want to sustain the rest of BL in line with the Corporate Plan, we should need to provide more to BL in total over this period if Land Rover is sold than if it is not. In this sense, the proceeds are indeed negative, though the 1983 position would be more favourable.

SECRET

TABLE 1

CASH AND EQUITY EFFECT OF LAND ROVER SALE ON REST OF BL: COMPANY'S VIEW

			£'M 1983-1986
1	Government equity sought in 1983-84, as in Corporate Plan*		(150)
2	Proceeds of Land Rover sale		145
3	Adverse effects of Land Rover sale claimed by BL:		
	a) loss of Land Rover cash flow	(108)	
	b) higher interest costs	(33)	
	c) restoration of debt/equity ratios	(41)	(182)
4	Government equity required by BL if Land Rover sold		(187)
5	Add: "loss of synergy" costs		(50)-(90)
6	Government equity required to restore position of BL after Land Rover sale plus "loss of synergy" costs		(237)-(277)

* BL also project net private sector borrowing of approx £100m in this period.

SECRET

TABLE 2

BL: EFFECT OF LAND ROVER SALE ON EXTERNAL CASH REQUIREMENTS

	Adjusted Figures		£'M 1983-1986
1	Proceeds of Land Rover sale ≁		110-145
2	Allowable ø adverse effects of Land Rover sale on rest of BL:		
	a) loss of Land Rover cash flow *	(108)	
	b) higher interest costs	(15)-0	
	c) "loss of synergy" costs	(90)-(50)	(213)-(158)
3	Net cash effect		(103)-(13)
4	Government equity sought in 1983-84 as in Corporate Plan		(150)
5	Total Government equity necessary to restore cash position of BL to Corporate Plan base, after sale of Land Rover		(253)-(163)

≁ This range is that indicated by the Hill Samuel and Kleinwort Benson studies for a 1983 sale.

ø This item corresponds to lines 3 and 5 of Table 1, except that:

(i) part of the higher interest cost shown in Table 1 relates to the cost of borrowing to replace the projected £150m Government equity (even though BL claim they could not borrow on the resulting gearing ratios): this is inappropriate to a calculation of the Government equity needed to restore the position. The balance (£15m) is the estimated cost (£5m pa) if the medium term loan stocks need to be refinanced at current interest rates. BL's Counsel's advice is inconclusive on whether the trust deed would be triggered by a sale of Land Rover.

(ii) restoration of debt/equity gearing ratios is not allowed for.

* From the Corporate Plan. These may now be slightly on the high side (eg on margins and working capital); but if so the sale proceeds estimates (derived from the Corporate Plan) could also be reduced.

10/8

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

2nd July 1982

J. Sterling, Esq.,
Town & City Properties Ltd.,
4 Carlton Gardens,
London SW1.

STRICTLY PERSONAL & CONFIDENTIAL

Dear Jeffrey,

I attach a short note on privatisation and collaboration as agreed at your meeting with Sir Michael on Wednesday.

I must emphasise that there are many complex issues to be discussed both internally here and with the Government before a clear route and timetable for full privatisation could be finalised, and the attached profile should therefore be seen as an illustration of a general approach rather than as a proposal at this stage. As agreed between yourself and Sir Michael, the note is, of course, based on the assumption that the concerns expressed in Sir Michael's letter to the Secretary of State of 25th June are satisfactorily resolved.

Although Sir Michael has seen the note, it has not yet been considered by other Board members - but the Board will have the opportunity to discuss it before they meet the Secretary of State next Tuesday.

Yours sincerely

Roger Holmes

Roger Holmes
Assistant to the Chairman

STRICTLY CONFIDENTIAL

INDICATIVE PROFILE FOR PRIVATISATION

A strategy for full privatisation is being developed for the 1983 Corporate Plan, setting out the options, timetables and financial implications; clearly a pre-requisite of such a strategy is agreement between the Government and the BL Board on the broad objective, e.g. to pursue full privatisation of all BL's businesses as quickly as possible (with early and visible progress to this end) consistent with maintaining the recovery strategy in the Corporate Plan.

As an indication of the general approach which would be adopted in the Plan, the following profile for privatisation is one of the major options to be examined:-

Cars business (Cars and Unipart Groups)

(a) Austin Rover - seek a minority stake of around 25% (or a jointly-owned project company) from Honda during 1983/84 as part of the development of collaboration in the XX project and beyond - this would be unlikely to yield significant cash, but equity participation is already on the table in current discussions with Honda.

(b) Jaguar - seek a minority stake of around 25% (or a jointly-owned project company) from BMW during 1983/84 as part of a major collaborative agreement (already under discussion); failing agreement on this with BMW, aim to float or place 25% of Jaguar shares in 1984 - estimated proceeds £10-15m.

(c) Unipart - the Board has suggested flotation or placement of 40% of the shares in 1984 as a means of partially offsetting Government funding: estimated proceeds £40-60m.

(d) Full privatisation - build on the collaborative deals and completion of the recovery programme to prepare for a full flotation of the Cars/Unipart business as a whole, consisting of majority holdings in the three constituent businesses. If these businesses perform to Plan and external economic factors are reasonably favourable, this may be achievable by 1986/87.

Commercial vehicles business (Leyland and Land Rover Groups)

(a) Explore possible collaboration/disposal of the Leyland and Land Rover Groups (combined) with other manufacturers - separate discussions already under way with International Harvester and the Laird Group.

(b) If none of these discussions are fruitful, seek a minority stake of around 25% in Land Rover by 1984 - estimated proceeds £20-25m.

(c) Proceed in parallel with the recovery of Leyland, so that Leyland and the majority holding in Land Rover can together be floated if not previously sold to another manufacturer. If Leyland recovers in line with Plan, flotation of the combined Leyland/ Land Rover business may be achievable from 1985 onwards.

(d) If Leyland Trucks were to fail to recover and were therefore to have to be closed, dispose of the remainder of Leyland Group and Land Rover as quickly as possible.

Continued

Public Announcement

Statements about privatisation (in principle) could be made publicly just as soon as the succession and organisation issues have been resolved - e.g. in conjunction with the announcement of BL's half-year results in September.

When future funding has also been resolved and the implications of the various routes to privatisation fully discussed, it would then be possible to announce the more specific intention to seek to attract minority stakes into BL's more profitable businesses. Clearly, collaborative agreements would be prejudiced by premature publicity, but in addition to an early announcement of the Leyland/Cummins deal, the current negotiations with Honda and BMW should be concluded within a matter of months and thus enable announcements to be made then about equity participation, if the negotiations have been successful on this issue.

RLH
2.7.82.

Caithe
Ive lined up Sir R Hutter
5020
Ind Pol
DoI.
MCS 2/7

10 DOWNING STREET

(1)

Prime Minister

Secretary of State for Industry ("10 minutes") would like a brief word about British Leyland - structure and Sir M Edwardes' succession - on Tuesday. We can fit this in.

Agree?

Yes

MCS 1/7

Would you like the Chancellor to be present?

Yes not

MCS 1/7

16236
6664

9572 = 110.08

CONFIDENTIAL

Prime Minister (4)

MO 10/6

Treasury Chambers, Parliament Street, SW1P 3AG

N Lamont Esq MP
Minister of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

9 June 1982

Dear Minister of State

LEYLAND GROUP/CUMMINS COLLABORATION

Leon Brittan has asked me to reply to your letter of 28 May.

I agree that you can give the clearance that Sir Michael Edwardes seeks to sign an agreement with Cummins but, as you say, this does not mean that we have given approval for the investment. Before we do that we will need to see the investment appraisal and satisfy ourselves that the expenditure makes sense in financial terms.

At that stage I shall be particularly interested to see the basis on which a 21 per cent internal rate of return for the project, compared with the alternative of outsourcing, is claimed. At first sight this seems a rather high figure.

I am informed that between now and the end of the year BL will spend only £100,000 on the project and will be able to pull out without being liable for any compensation payments. I regard this as particularly important given the uncertainty over changing the future of Leyland Group. I hope that by the time we have to take a decision about the investment, the outlook for Leyland Group will be clearer.

I am copying this letter to the recipients of your's.

Yours sincerely

Jim Milner (Private Secretary)

for JOHN WAKEHAM

(Approved by the Minister and signed in his absence)

Prime Minister

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the Minister of State
Norman Lamont MP

The Rt Hon Leon Brittan MP
Chief Secretary
HM Treasury
Parliament Street
London SW1

28 May 1982

Dear Leon

We have been asked by BL for approval for the proposed collaboration between the Leyland Group (the commercial vehicle business) and the Cummins Engine Company on a light truck diesel engine. The proposed collaboration is being put to the Government under the terms of Sir Michael Edwardes' letter to Keith Joseph of 26 January 1981 (copy at Annex A). The purpose of that letter was to give the Government an opportunity to determine whether a proposed collaboration which was sensible from a commercial point of view did not preclude other possibilities for the future of the company or Group concerned which might be more attractive to the Government. We are not therefore at this stage involved in a detailed appraisal of and approval for the investment required; the investment programme will, as it exceeds £25 million, be submitted for Government approval under the Memorandum of Understanding later this year.

The details of the proposed collaboration are set out in Sir Michael Edwardes' letter of 22 April 1982, a copy of which is at Annex B. Your officials have been involved in discussions with BL about the proposal, and can provide further details.

The issues which face us at this stage with this collaboration are three-fold: whether we have reason to doubt the Board's overall commercial judgement of BL's interests; whether there is any national interest argument against the collaboration, especially given our level of financial support for Perkins, a UK-based engine manufacturer; and whether the collaboration helps or hinders the Government's objectives of extricating itself from BL. I have looked carefully at all three aspects.

On the commercial interest point, we have identified no reason to doubt that the Board have misinterpreted the company's commercial interests. Cummins are an extremely technically competent and commercially sound company with a good reputation for designing, manufacturing and selling large diesel engines, who should be fully capable of successfully developing a small engine range they have hitherto been involved in. The economies of scale to which the collaboration will give the Leyland Group access are perfectly satisfactory for this size of engine (about 130,000 units a year) while still allowing BL a large measure of value added at Bathgate. I am therefore quite content with the choice of Cummins from a commercial point of view as a collaborative partner for the Leyland Group.

There is, in addition, the question of whether BL should be aiming for collaboration on this engine, rather than out-sourcing it. You may recall that the 1982 Leyland Group Plan which we approved at the end of last year contained radical proposals to reduce the vertical integration of the commercial vehicle business in order both to reduce costs and to provide access to greater economies of scale than were otherwise available. This involved, amongst other things, the ending of stand-alone engine manufacture by the Leyland Group on any of its four engine ranges. The Plan proposed that two of these four ranges would be bought from other manufacturers, and two would be made by Leyland in collaboration with other manufacturers. This proposal covers the first of these collaborations. While out-sourcing is certainly a lower-risk option, BL have two main reasons for rejecting it: that their approved corporate strategy was not for them to become simply an assembler of trucks, and that the proposed collaboration generates a 21% incremental rate of return over out-sourcing. Moreover, in view of this prospective rate of return, out-sourcing of this engine would have major industrial relations implications. Although we are not able at this stage to verify the rate of return, the commercial advantages of collaboration over out-sourcing are important, and progress now on collaboration will not preclude withdrawal (without significant cancellation costs) and a switch to out-sourcing later this year if the commercial balance should alter.

We have had frequent representations from Perkins that the proposed collaboration cannot be right on national interest grounds, given the US base of Cummins and the UK base of Perkins. The argument is not, however, nearly as clear-cut as this. Cummins have three factories already in the UK and are an established part of our industrial infrastructure as, of course, are Perkins, who do have the added benefit of a UK-based research and development effort. We have no reason to suppose that, if Cummins were not collaborating with the Leyland Group, they would ignore the UK and European market for their new engine; instead, they are likely to meet the demand from their new American factory instead of, under this proposal, from assembly by the Leyland Group at Bathgate. Nor does it seem as if Cummins' entry into the European market in this engine size (they are already a well-established supplier of large engines) will hit Perkins disproportionately; Cummins' proposed sales amount to 5% of European demand, and are not projected at the agriculture sector where Perkins are strongest. I therefore consider that there are no overriding national interest arguments in favour of Perkins, still less any which would lead us to deny approval for a collaboration with an excellent American company which we believe to be fully in BL's commercial interest.

On whether this collaboration will help or hinder the Government's aim of extricating itself from BL, the issue is whether potential purchasers who are themselves integrated truck manufacturers would be put off by Leyland Group's collaboration with an independent engine maker. There may, of course, be problems associated with this, and with any other, collaboration on a major component, but their extent will depend above all on the other company involved. But in any takeover there would be many aspects of synergy or conflict to take into account, and I see no reason to regard this as overriding: it is in any case heavily outweighed by the beneficial effect the Cummins collaboration is likely to have on Leyland Group's viability.

I therefore support BL's decision for collaboration with Cummins, and I propose to give Sir Michael Edwardes the clearance he seeks to sign the agreement with Cummins to enable detailed work to proceed - of course, without prejudice to our views on the investment associated with the collaboration when the investment appraisal is put to us. Sir Michael has hinted that the signing may be deferred until the current discussions on Land Rover are concluded - I consider that this is a matter for his commercial judgement and I propose to leave this aspect to him.

I should be grateful to know whether you agree with my conclusions on this proposal. I am sending a copy of this letter and attachments to the Prime Minister, the Secretary of State for Scotland, and to John Sparrow.

Yours -

Norman

NORMAN LAMONT

Ref: ... ANNEX A

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE
LONDON W1H OHO

FROM SIR MICHAEL EDWARDES

26 January 1981

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

CONFIDENTIAL

Dear Secretary of State,

Further to my letter to you of today's date which is intended for publication, I can confirm to you privately that 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.

Yours sincerely
Michael Edwardes.

TO Mr Boucher	COPIES TO
FOR ACTION (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: Noon 2/2/81.	PS/MT PS/MM PS/Sec Mr Steele Mr Mountfield

No action req'd.
14/8/

ANNEX B.

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

22nd April 1982

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

ACKNOWLEDGED

TO Mr Bowden	COPIES TO
(PLEASE ... REPLY IF APPROPRIATE) PLEASE BY:	PS/NL
ASAP	PS/JB
	PS/Sec
	Mr Mazzeo
	Mr Mountfield

Dear Secretary of State,

LEYLAND GROUP/CUMMINS COLLABORATION

In accordance with my private letter of 26th January 1981 to your predecessor, the BL Board seeks the Government's clearance for a collaborative agreement between the Leyland Group and Cummins Engines for the manufacture of a new range of engines for light trucks, designated Family I. The agreement is in line with the 1982 Corporate Plan, under which Leyland will participate in the manufacture of only two of the four truck engine families in future - Family I and Family III. The need for collaboration on these engines was fully explained in the Plan.

The proposed collaboration involves the manufacture at Bathgate of a new Cummins-designed engine in a 4 and 6 cylinder form to replace Leyland's existing 98 series engine from 1986 and to meet all Cummins' European requirements. The engine will also be manufactured in North America under collaborative arrangements between Cummins and J.I. Case, with world-wide volumes reaching 134,000 by 1990 - thus achieving fully competitive economies of scale which Leyland could not hope to generate without collaboration. A breakdown of the forecast markets and uses for the engine is attached.

Continued

All engines for Leyland and Cummins' use in Europe (rising to 40,000 per annum by 1990) will be assembled and tested at Bathgate. Fully machined cylinder blocks and heads will be supplied from the new Cummins/Case plant at Rocky Mount, North Carolina, while Leyland will manufacture the crankshaft and con-rods not only for Europe but also to meet 20% of the North American requirements. Other components are expected to be sourced within Europe (including some in-house) to meet European demand only. The balance of trade involved in the proposed sourcing and sales pattern is likely to be heavily favourable to the UK (details attached).

Capital investment by Leyland in the project is currently estimated at £33.6m, compared with provision of £34.9m in the Corporate Plan. The investment will introduce a high level of automation in the higher-volume component manufacture, resulting in major productivity improvements as well as built-in quality control. Consequently, hourly-paid manpower employed on this family of engines at Bathgate will fall from 713 employed on the 98 series in 1981 to 381 employed on Family I by 1990.

Leyland Group are satisfied that the Family I engine will be fully competitive in both performance and unit cost with the available alternatives, including the new Q20 engine being developed by Perkins with whom they have also had discussions. Compared with the most likely alternative course of buying in proprietary engines from Perkins (which would have serious implications for Bathgate) the Family I engine project is forecast to generate an internal rate of return of 21%, with an average year return on assets of 26%. If for any reason the final phase of negotiations with Cummins were unexpectedly to reveal insuperable difficulties, it would be possible for Leyland Group to explore Perkins' offer of collaboration on their new engine, but this course would carry greater risks in view of uncertainty over Perkins' commitment to the project (Perkins having been responsible for the breakdown of a previous round of discussions in 1980) and the possibility that greater investment would be required at Bathgate. The more likely outcome is that Leyland would be forced out of engine manufacture in this sector and into purchase of engines from either Cummins or Perkins.

Continued

The collaboration with Cummins is to be formalised by four separate legal agreements, which are intended to be signed in June after the conclusion of detailed negotiations. A summary of these agreements is attached. They do not contain any cancellation penalty provision, as the positions of the two parties would be evenly balanced in such circumstances. No capital commitments are forecast to be required until the end of 1982, and the only significant payment which the Leyland Group is obliged to make to Cummins prior to that date is an initial £100,000 under the licence agreement.

The BL Board has therefore approved the Family I project in concept and has authorised the signature of the agreement, without prejudice to consideration of the full investment programme later in the year, when we shall be better placed to assess the progress of Leyland Trucks' recovery and thus the viability of such a major capital commitment. The investment programme will also, of course, require Government approval.

We are satisfied that the Cummins collaboration will not act as a significant constraint on Leyland Group's chances of securing broader collaborative arrangements. Indeed the Cummins relationship should make Leyland more attractive to potential partners as well as providing a much-needed boost to general confidence in the business.

Even though we shall not commit to any capital expenditure until later in the year, Leyland Group consider it essential to go ahead with signature and announcement of the Cummins deal now. To bring the project to a halt for several months could well encourage Cummins to look elsewhere for a collaborative partner; not only would they have no legal agreements to underpin their further development work, but they would obviously become highly sceptical of Leyland's commitment to the whole project. In addition, announcement of the deal will contribute to the rebuilding of the confidence of Leyland Trucks' employees, dealers, and customers after the strike, while conversely a delay in the project (which is widely known particularly amongst employees at Bathgate) would be very damaging to morale.

Continued

For these reasons, I trust that you will be able to give clearance to this collaboration in the next 2-3 weeks. If your Department requires any further information, BL staff stand ready to respond to requests from your officials.

Yours sincerely,
Michael Edwardes

FORECAST SALES OF FAMILY 1 ENGINE

1. WORLDWIDE

	1986	1988	1990
North America (Cummins/Case)	58,320	81,330	94,710
Cummins Europe	4,096	10,962	17,820
Leyland	22,105	22,584	21,744
TOTAL	84,521	114,876	134,274

2. BATHGATE-SOURCED ENGINES

Approximate split for	1990
Leyland - trucks (MT207,MT211,T68)	15,000
- Bus (211-based chassis)	3,000
- sales to Marshall tractors	4,000
Total Leyland	22,000
Cummins - UK	9,000
of which construction equipment	7,000
- rest of Europe	9,000
of which construction equipment	7,000
- marine sales	1,500
- less 3-cylinder volume*	(1,500)
Total Cummins	18,000

*Derivative not required by Leyland and therefore to be sourced from Cummins.

SENSITIVITY TO RISKS AND OPPORTUNITIES

A 50% shortfall in European demand from Cummins would reduce average return on assets from 26% to 16%. Recapture by Leyland of the JCB engine business lost in the recent strike would increase the average return on assets to 30%.

ATTACHMENT 2

FORECAST TRADE PATTERN FOR FAMILY 1 ENGINE IN UK

£m	1990
Imports of cylinder blocks and heads from USA	(8)
Exports of Bathgate components to USA	2
Export of engines for sales by Cummins in Europe	11
Favourable trade balance	5

LEGAL AGREEMENTS

There are four separate legal agreements, which were initialled by both parties on 24 February 1982, covering the following aspects of the Leyland/Cummins collaboration :

(a) Licence Agreement, which is non-exclusive and gives Leyland the right to manufacture and sell components and complete engines for use in Leyland products anywhere in the world, including replacement parts and engines. Leyland will also be able to grant sub-licenses in certain territories (the most important being Australia, India and Nigeria) including export of vehicles fitted with Family 1 engines from those territories and will be able to sell loose engines to Marshall and Sons Limited only. Payments will be £100,000 p.a. from date of agreement to commencement of production and £38 per engine (excluding those sold to Cummins) thereafter subject to a minimum payment based on 12,000 units (456,000 p.a.).

(b) Supply Agreement for supply by Cummins of blocks and heads, which covers 100% of Leyland volume requirements (with Leyland guaranteed continuity of supply at the same proportion of total production as in the previous six months in the event of any production shortfall) and sets base prices, which are subject to adjustment at six monthly intervals for inflation, exchange rate and design changes.

(c) Supply Agreement for supply by Leyland of 20% of the Rocky Mount plant requirements of crankshafts and camshafts, other terms and conditions being essentially similar to (b) above.

(d) Engine Purchase agreement for engines to be supplied by Leyland to Cummins for 100% of their European requirements up to 20,000 units per annum, again with other terms and conditions being similar to (b) above.

The major outstanding point for negotiation between the parties is matter of warranties to be included in the three supply agreements license agreement specifically excluding any warranty by Cummins, than the commitment for Cummins to use their best endeavours to achieve the Leyland performance criteria.

The clearance of the EEC Commission will be required for these agreements, the legality of which under US anti-trust legislation has been confirmed by Cummins.

JH 497

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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

12 May 1982

John Rhodes Esq
Private Secretary to the
Secretary of State for Trade
1 Victoria Street
London SW1

cc JV

Dear John

PRIVATISATION OF LAND ROVER

Thank you for your letter of 30 April conveying your Secretary of State's view that the sale of Land Rover to another company would almost certainly come within the mergers provisions of the Fair Trading Act 1973.

2 We shall keep this point well in mind and the Department of Trade and the Office of Fair Trading will be informed, as necessary, of any developments.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Defence and Employment, Sir Robert Armstrong and to Mr Sparrow.

Yours sincerely,
Jonathan Spencer

J P SPENCER
Private Secretary

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JFF607

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

6 May 1982

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

Thank you. MS

Prime Minister

I asked, on your behalf, for this report.

MCS 6/5

Dear Michael,

BL : FUTURE STRUCTURE

Following our telephone conversation earlier this week, I am writing to give you a summary of my Secretary of State's meeting with Sir Michael Edwardes on 27 April to discuss the Government's future intentions towards BL.

2 The Secretary of State explained to Sir Michael Edwardes the outcome of Ministers' discussion on 21 April of the BL Board's proposals on future structure : namely that BL should sell off the Land Rover business by the end of 1983; that BL should be allowed to retain the net proceeds of the sale; that the additional equity of £150m which BL had requested for 1983/84 would not be available from the Exchequer; and that the Government had not approved the BL Board's proposals on future structure. Sir Michael Edwardes reacted calmly, though clearly he was unhappy with this outcome. In response, he made three main points. On future handling, he said he would report back urgently to his full Board, who would wish to study the implications in detail; in due course he would wish to give the Secretary of State a considered response, but at this stage he could not say how long this would take or in what form it would be given. Secondly, the Government's intentions on funding in 1983/84 and on the disposal of Land Rover appeared to undermine the integrity of the 1982 Corporate Plan, which the Board would therefore need to review thoroughly. Thirdly, he indicated clearly that he would accept the Government's decision on future structure (while commenting that the maintenance of a unitary structure would make the achievement of recovery by BL more difficult), and that he would therefore plan ahead on the basis of a unitary structure.

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3 In further discussion of the sale of Land Rover, Sir Michael Edwardes suggested that the net proceeds of a sale in 1983 could well be zero or even negative. He asked whether Ministers would be prepared to review the position if it became clear that this would indeed be the outcome. The Secretary of State replied that the Government would expect BL to be able to realize substantial net proceeds from a sale of Land Rover, though he recognised there could be no certainty that it would yield the full £150m which the BL Board had identified as their requirement for 1983/4. If the net proceeds of sale fell short of £150m, the Government would be prepared to discuss with BL how any financing gap might be filled. But Ministers had not reached the conclusion they had on the sale of Land Rover on the basis of zero or negative net proceeds. If it became clear that this would indeed be the outcome then Ministers would obviously have to look again at the whole question of disposal, or at least of its timing.

4 On the possible methods of selling Land Rover, the Secretary of State emphasized to Sir Michael that the Government would wish to maximize the proceeds while simultaneously maintaining Land Rover manufacture in the UK and safeguarding the relevant defence interests. He said he was open to the Board's advice on the best way to proceed. In view of the undesirability of triggering a suspension of BL's loan stocks, he would be prepared for the BL Board to approach a few individual buyers in the first instance, which might include Vickers and GKN. Sir Michael Edwardes emphasized the importance of avoiding any leak of the Government's intentions regarding Land Rover in view of the consequences for BL's loan stocks; and the Secretary of State agreed that he would emphasize the importance of this to his colleagues. With this in mind, the Secretary of State, has asked me to point out that any disclosure at this stage of the Government's intentions regarding Land Rover or, indeed, of the decision not to provide the further £150 million of equity capital required by BL, could undermine confidence in the company, and have a detrimental effect on its prospects of recovery.

5 As regards the future structure of the BL Board, Sir Michael Edwardes advised strongly that his present role as combined Chairman and Chief Executive should be split, probably into a non-executive Chairman and a separate full-time Chief Executive, after his departure. He was asked to let the Department of Industry have his considered views on the suitability of Mr Horrocks or Mr Andrews for the Chief Executive job within a unitary structure.

6 I am sending copies of this letter to Peter Jenkins (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes

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(Department of Trade), Colin Balmer (Lord Trenchard's office, MOD), Gerry Spence (CPRS) and David Wright (Cabinet Office). I should be grateful if circulation of this letter could be restricted in the same way as previous correspondence on this subject.

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

6 MAY 1982

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

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MW 30/4

From the Secretary of State

Jonathan Spencer Esq
Principal Private Secretary
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SWI

30 April 1982

Dear Jonathan,

PRIVATISATION OF LAND ROVER

Following Ministerial discussion on 21 April on BL's future structure and the prospects for the privatisation of Land Rover, my Secretary of State feels that it should be recorded that the sale of Land Rover to another company would almost certainly come within the mergers provisions of the Fair Trading Act 1973 thus involving his responsibilities together with those of the Director General of Fair Trading under those provisions. (The same could be true, though it would be less probable, under a disposal by flotation; for example if another enterprise acquired a substantial holding at or after the flotation).

If any existing enterprise acquires shares sufficient to put it into a position to exercise material influence or control over the policies of Land Rover, this would almost certainly result in a qualifying merger situation which would have to be considered for possible reference to the Monopolies and Mergers Commission under the usual procedures. This in no way means that the options for privatisation through an outright sale should not be thoroughly explored, but only that the Secretary of State should be kept fully informed and, as soon as it is appropriate, the Office of Fair Trading.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Defence and Employment, Sir Robert Armstrong and to Mr Sparrow.

Yours sincerely,

JOHN RHODES
Private Secretary

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SUBJECT

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10 DOWNING STREET

From the Private Secretary

21 April 1982

Dear Jonathan,

BRITISH LEYLAND: FUTURE STRUCTURE

The Prime Minister held a meeting this afternoon to discuss the BL Board's proposals on future structure. Your Secretary of State was present, together with the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, Mr. Lamont (Minister of State for Industry), Sir Peter Carey, Mr. Sparrow and Mr. John Hoskyns.

Your Secretary of State said that, following the Prime Minister's last meeting on this subject, he had considered very carefully the validity of BL's proposals. In doing so, he had been helped (although by not as much as he had hoped) by the conclusions of the Corporate Consulting Group (CCG), and meetings with both Sir Michael Edwardes and members of his Board together with the CPRS and CCG. His conclusion had been that the Board had the better of the argument, and that it would be right to proceed with BL's two company plan. He had felt, ever since taking up his appointment as Secretary of State, that DOI expenditure was too much tilted towards propping up failing industries rather than towards assisting the industries of the future. For this reason, and in order to meet the Government's privatisation objectives, he was proposing that BL should be told that the additional equity of £150 million which they had requested for drawing in 1983-84 (the Board's commitment not to seek further government money beyond this £150 million was clear) would not be available from the Exchequer, and could only come from the proceeds of the sale, by the end of 1983, of Land Rover. He had not discussed this proposal with the BL Board and his colleagues should be aware that the Board would be likely to be very hostile to the proposal. There would be a major row; and, perhaps, senior resignations, and industrial trouble in the cars division. Premature repayment of some loan stocks might be triggered by this disposal. It might, too, be that the BL Board would, in the light of this decision, wish to think again about their proposals for re-organisation of BL's structure.

In discussion, it was argued that there was much to be said for pushing ahead with privatising Land Rover as proposed, notwithstanding the position of the BL Board. Sir Michael Edwardes had in the past resisted the Government's desire to proceed rapidly with privatisation, with the threat that he would not go on as Chairman if forced to go too fast in this direction. Since his appointment came to an end in a matter of months, this

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/argument no

argument no longer applied. There was a strong case, aside from the £150 million funding argument, for selling off Land Rover. It would be a successful and profitable company in the private sector. To sell it off would be a major task, and it would be important for the Board and the Government to devote their energies to that end, and not to be diverted into the task of re-structuring the company.

In further discussion it was argued that the unified structure of BL magnified and dramatised the problems of the company. A two company solution would make more manageable the media's habit of criticising the company whenever possible. Further, a split into two companies would much reduce the risk of industrial relations problems in one part of the group spilling into other parts. Finally, two smaller companies would be easier to manage than one major company, and the financial exposure of the company and the Government would be less if one or other of the two companies rather than the whole, unified, company went down. Against this, it was argued that there was a natural synergy between Cars and Unipart, and that this ruled out a four-company solution. Further, a successor company consisting of the Trucks and Buses divisions together with Land Rover would be much more resistant to privatisation of Land Rover than a single, unified, company would be; and the managerial and administrative effort in effecting the division of the present company into two would be very considerable. There was, finally, no necessity for a labour dispute in one part of the Group to spill into another. There were, for example, sometimes strikes at Halewood when there was no strike at Dagenham.

Summing up, the Prime Minister said that it was agreed that the sale of Land Rover should be BL's first priority. Of the various methods of privatisation set out in your Secretary of State's minute of 16 April there was much to be said for a sale to another company, perhaps to an engineering or defence company. BL should be allowed to retain the proceeds of the sale subject to the Government's accepting the 1983 Corporate Plan, and they should be told that the further £150 million would not be available from the Exchequer but must be found from the proceeds of realisation of assets. Sir Michael Edwardes should be asked to proceed with the privatisation of Land Rover on this basis as rapidly as possible. On future structure, the Prime Minister said that the balance of view at the meeting was that a unitary structure was clearly preferable to a division into two companies: there was a strong wish to avoid the diversion of effort into restructuring, away from the primary tasks of privatising Land Rover and running the rest of the company. It might be that BL itself would reach this conclusion in the light of the view the Government had now taken. Ministers would need to consider further the question of the successor to Sir Michael Edwardes, and the objectives for BL which the successor should be given. It would be important that Sir Michael Edwards' successor should understand, and accept the government's objectives; and that he should be appropriately qualified to carry them out.

/ I am copying

I am copying this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), Peter Mason (Department of Industry), Sir Peter Carey, Colin Balmer (Lord Trenchard's Office, MOD), Gerry Spence (CPRS) and David Wright (Cabinet Office). I should be grateful if all recipients of this letter would restrict access to it to the maximum degree possible.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

From: S R Douglas, Assistant Private Secretary

For [illegible] MCS

cc J.V. Ind Pol. P.9.

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

CONFIDENTIAL

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D/MIN/TT/1/6

20 April 1982

Dear Michael,

FUTURE STRUCTURE OF BRITISH LEYLAND

Lord Trenchard, who is dealing with this matter on behalf of the Secretary of State for Defence, has seen the Secretary of State for Industry's note to the Prime Minister of 16th April. Lord Trenchard would like to endorse Mr Jenkin's point about the importance of the continuity of supply of Land Rovers for defence purposes. The Army is a large purchaser of Land Rovers and will continue to need Land Rovers for the foreseeable future - though no guarantees can be given about the future levels of orders.

We would be grateful if the Ministry of Defence could be kept in touch with developments on this issue.

Copies of this letter go to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment and to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely,

Stephen Douglas

Michael Scholar Esq

CONFIDENTIAL

CONFIDENTIAL

21 APR 1982

10 DOWNING STREET

Prime Minister

You may like to refresh your memory of your earlier comments and questions on this issue — see flag A.

MCS 20/4

S E C R E T

This is a copy. The original has been extracted and closed, 40 years.

Policy Unit
20 April 1982

PRIME MINISTER

BL'S FUTURE STRUCTURE

Analysis

The Policy Unit starts from the basic proposition that BL will never be commercially viable. We therefore think that the Government's objective should be "privatisation or close", i.e. privatise as much of BL as possible, and make it clear to those in charge of BL that the alternative is closure: without that alternative, the objective will not be persuasive.

We agree with the Consultants' report (which in this respect seems to be common ground with BL management) that the best prospects for privatisation are - in order - Land Rover; BL Trucks; Jaguar; Unipart. We believe - and indeed we have always argued - that the only future other than closure for the volume car business, and indeed for Jaguar, is some sort of joint venture, probably amounting in the case of volume cars to partial sale. We do not think Ministers should ever be seduced into believing that further injections of capital could create a viable volume car business: the market is simply too small.

We know that the financial situation of BL is likely to be worse than Sir Michael Edwardes is at present admitting. BL has been financing its recent losses out of capital released from the contraction of its business. If business did pick up as forecast, BL would soon run into a serious cash flow problem. And in his latest note Patrick Jenkin refers to the possibility of a sudden collapse in the UK car price level, showing that BL is even less competitive than we had realised.

Strategy

Therefore, we believe that our strategy must be to find a chairman and the structure most likely to lead to maximum privatisation, the quickest sale of appropriate parts to collaborative partners, and eventual closure of the totally unviable parts, all at minimum Government cost. This is a role more suited to a receiver than to a go-getting industrialist. It is a strategy of orderly withdrawal, which recognises both the political impossibility of early closure of the volume car business, on which depend perhaps 200,000 jobs, and the fact that much of BL, notably commercial vehicles, the dealerships, Land Rover and Jaguar, are only suffering from neglect and could survive.

We agree with Patrick Jenkin that the first stage in this strategy is to tell BL they can't have the extra £150 million, and must realise Land Rover to finance the rest of the business, although we doubt that LR could provide anything like that, however the sale is managed. But we see that as additional to, not a trade off for, having our way (rather than Michael Edwardes') on structure.

Structure

Measured against the criterion of orderly withdrawal, the case for and against the BL Board's proposal for a split into two companies looks as follows:

1. The case for splitting

The Consultants identified three arguments:

/ (a)

(a) it is easier to manage two problem companies than one;

(b) one company would be less vulnerable to a financial crisis in the other;

(c) it would solve the problem of a successor to Michael Edwardes, since two part-time chairmen and two full-time executives are already identified.

In addition to these arguments put forward by CCG, the Policy Unit also recognises that splitting BL into two companies would lower the profile of the business, thus making it easier for the Government to take politically difficult decisions about the future of the constituent parts.

2. The case for a unitary structure

Again, the Consultants identified three arguments:

(a) the issues facing BL are so large that two part-time chairmen could not possibly tackle them;

(b) there will be recurrent crises which require maximum flexibility of response, which would not be available within smaller businesses;

(c) and crucially, privatisation would be easier: the narrower the portfolio, the larger the impact of privatisation on the residue, and the less the ability to respond flexibly.

In addition to these arguments, the Policy Unit considers that, first, a unitary structure offers the best chance of attracting a new chairman dedicated to the strategy of orderly withdrawal that we favour; and second, that

/it would

it would avoid the delay, which would inevitably follow the establishment of a totally new structure, in making the kinds of politically difficult decisions which will be needed after the Election.

We think the balance of argument lies in favour of retaining the present unitary structure. * - * we think that the new teams he proposes for the two sub-divisions of BL would be most unlikely to be committed to a run-down strategy; and we think we should face up to the need to recruit a new chairman for BL who would be more akin to a receiver or an undertaker than to a successful entrepreneur.

~ Passages deleted and closed, 40 years, under FOI Exemption.
OAWayland
13 September 2012

JOHN HOSKYNS

c.c. JV

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SECRET

Prime Minister

(1)

For discussion at Wednesday's meeting. Mr Jenkin asks if Sir P Carey may attend. Agree?

MLS 16/4

Told Caroline

Yes

PRIME MINISTER

BL'S FUTURE STRUCTURE

We are meeting on 21 April to discuss the BL Board's proposals on future structure. Your Private Secretary's letter of 22 March set out your comments and questions on my minute of 16 March. I have also seen the Chancellor's letter of 6 April. I apologise for the length of this minute but the issues are complex.

BL's requirements for public funds

2 It is clear to me that in the context of the Government's overall economic strategy the key issue we must consider is BL's likely claim on the PSBR beyond the present year. Broadly, I believe that the company is on course to contain its call in 1981-82 and 1982-83, taken together, to the £990m announced by Keith Joseph in January 1981. (I cannot exclude the possibility that up to £100m or so might slip forward out of 1982-83 into 1983-84, just as that amount has slipped from 1981-82 to 1982-83, because of the timing of redundancy payments, capital expenditure payments and working capital: but I would see such deferment as a benefit to be welcomed, not something to be penalised). But there remain the high risks we have previously perceived. On the Cars side, a sudden collapse in the UK car price level to match continental prices could have quite serious effects; on the Leyland Group side, the future of the truck business will continue doubtful, until it is seen whether the drastic surgery currently in hand, (and which led to the strike which BL faced out successfully) leads to the recovery which similar surgery on the Cars side seems likely to produce.

3 Beyond 1982-83, however, BL have always maintained that they will need additional equity of £150m, to be drawn in 1983-84. We have never said "yes" or "no" to this request, which has been explicitly left on the table. (I deal below with the question you raise about the assurances offered by the present Board to live within this £150m).

4 However, given the likely public expenditure constraints over the next two years, I think we must now tell BL that this £150m will not be available from the Exchequer and that they must do what any normal private sector company struggling for survival and recovery would do - realise saleable assets to finance the rest of the business. I have therefore come to the view - without further consultation with Sir Michael Edwardes who does not yet know of this proposal- that BL should be told we will not provide the full £150m, and that they must realise Land Rover by the end of 1983 to find the finance for the rest of the business. Depending on the net receipts from the sale of Land Rover, we would want to consider what steps should be taken if further finance turns out to be needed.

Sale of Land Rover

5 In favouring early realisation of Land Rover, we would have to reconcile conflicting objectives - speed of sale; maximisation of proceeds; a wide spread of shareholding; reduction of vulnerability of Land Rover itself to disruption spreading from the other businesses; assurance of continuity of supply for defence purposes; assurance of continuity of manufacture in the UK. My own priorities between these would be to maximise sales proceeds, to ensure continuity of manufacture in the UK and so to protect defence interests.

6 Against this background I have considered the various possible methods of privatisation. Main options are:

(a) Flotation: I note the Chancellor's preference for this, and I understand the advantages in terms of wide spread of shareholding and (probably) continuity of UK manufacture. However I suspect that Land Rover has too narrow a market base to find a secure future as a free-standing quoted company. It has, effectively, only one rather narrow product range; and its overseas markets, though widely spread geographically, are largely in unstable parts of the world. [Land Rover exports 80% of its output]. It may therefore appear too vulnerable to stand alone and so prove unattractive to investors. As to timing and proceeds, a flotation could not take place immediately and would yield a lower price. I agree with the consultants' view that given the need to complete separation of financial services, establish a track record (Land Rover has been a self-accounting unit from 1 January 1982) and prepare a prospectus, a flotation could only just be contemplated 18 months from now.

(b) Sale to a conglomerate [e.g Lonrho]: this could probably be done quickly at a fair price but there would be a risk of an embarrassing re-sale at a premium, and assurances that production would stay in the UK would be of doubtful value.

(c) Sale to an engineering or defence company (e,g Vickers, GKN): this might provide a viable industrial context for Land Rover, but without testing the market I cannot know whether any suitable company would have the funds or want to expand its vehicle interests.

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(d) Sale to another vehicle manufacturer: this is much the most likely form of outright sale, and could probably be achieved fairly quickly; but a fair price could only be achieved at the right time which is not this year. The world vehicle industry (Japanese possibly excepted) is short of ready cash. We should need to consider the wider implications (for example political and defence considerations) of selling Land Rover to a foreign company; and we should be exposed to the risk that manufacture would be shifted progressively overseas, so that the sale would be more the disposal of the design and marque than the transfer of ownership of an ongoing UK business. We should be vulnerable if this were seen publicly as a major risk, since it would raise questions about our motives in selling the company.

7 I am unable to estimate proceeds very precisely, but as a guide I would expect BL to realise very approximately £150m from a sale of Land Rover to another company at the right time (i.e not under immediate duress), and significantly less for a flotation. However, the disposal of such a large part of BL's assets would be likely to trigger the premature repayment of up to about £75m worth of loan stocks and related borrowing, which might then have to be refinanced. This could be done, but as BL's asset base would be narrower, it would probably be at the expense of other loans which the company planned to negotiate.

8 I conclude that BL should be asked to sell Land Rover (but not Freight Rover, the light commercial van operation which is really part of the Truck operations); that the sale should be to another company, preferably but not essentially a UK owned one; that transfer of ownership should take place before the end of

1983; that BL or its successor companies should be allowed to retain the proceeds subject to approval of the 1983 Corporate Plan due this autumn; and that continuity of the UK as the centre of manufacturing and R&D operations should be a covenant requirement in such a sale. We should be in no doubt that this last point will be very difficult to guarantee, as we found with Peugeot's assurances when Linwood was closed; but it is essential that reasonable assurance should be secured that Land Rover will stay in the UK and continue to base its operations here.

9 In taking this decision, we should be fully aware of the difficulties it will raise. First, it will lead to accusations that we are dismembering BL as a preliminary to closure; there is at least a significant risk of major industrial action in other parts of BL which could lead to closure of volume cars operations. Second, there are undoubtedly (as the consultants confirmed) important inter-dependencies between Land Rover and the Leyland Group, whose rupture unless handled carefully could be particularly serious for the recovery prospects of the Leyland Group. For instance, Land Rovers and Leyland trucks are assembled in the same assembly plants in most of the English speaking territories in Black Africa: the six most important of these markets account for nearly 20% of Leyland Vehicles' exports, and 10% of Land Rover's exports (25% of their kit exports). Given time, these links can be reconstituted on a contractual arms-length basis where appropriate, and damage to the Leyland Group minimised. Third, there will be an adverse morale effect in the less successful parts of BL if the "jewels in the crown" are removed, and this will reflect on performance.

10 Finally, I have little doubt that this proposal will be fiercely resisted by the BL Board (especially as we have not yet been told the first results of the feasibility study they have been conducting with Hill Samuel). But our stance must be that

it is the only way BL can have further funds after the £990m. We should also present it to the BL Board as a condition of accepting the Board's view on structure, which I discuss below. Nevertheless we must accept the probability of a major row with the BL Board, which is likely to become public very quickly and which could well lead to threatened resignations of some or all of the Board.

Future structure

11 Against this background, the question arises whether it is nevertheless right to proceed with the Board's proposal, which I have advocated, to split the company into two.

12 I believe the logic of that split is largely unaffected by sale of Land Rover. The management burden of the remaining volume businesses will continue to be very large for a single Board; and the synergy between Cars and Leyland Group is minor. It is possible that the timing of Land Rover sale, in relation to implementation of the two-way split, would present problems; but I propose that we should tell BL that, subject to their own views on this point, we should be willing to accept the two company plan.

13 You suggested that if Sir Michael Edwardes is not staying on it is his successor who should have the main say in any changes in the structure of the company which are to take place. I question this. It must be for the Government as owner to decide on the structure of the company and then to appoint the Board or Boards to manage that structure. I do not see how this could be left to a new Chairman to recommend.

New Boards

14 You asked what plan the Department has for ensuring that the strength of the Boards and the managements of the two new companies would be adequate for the tasks facing them; and the Chancellor has expressed doubts about the adequacy of the two potential Chief Executives. Sir Michael Edwardes has proposed that Mr Ray Horrocks should be the Chief Executive of the new Cars company, with Sir Austin Bide as part time Chairman; and that Mr David Andrews should be Chief Executive of the new Commercial Vehicles company with another of the non-executive members as part time Chairman (possibly Sir Robert Hunt, who is due to retire from Dowty in about 18 months' time, but I have not, of course, consulted him). I consider that the ability and personal qualities of these members of the present Board were under-estimated by the consultants; and that in particular, Mr Horrocks and Sir Austin Bide, who now has a good deal of time available from his duties at Glaxo, would make a very good team on the Cars' side and complement each other well. We also have a very high regard for the abilities of Mr Andrews. If Sir Robert Hunt were unwilling to serve, or if we felt him not ideal for the job, an alternative non-executive member could be put on the BL Board within the next few months in preparation for taking the Chairmanship of the Commercial Vehicles company. I have not yet formed a view as to whether it would be sensible to accept Sir Michael Edwardes' offer to serve on the two new Boards for up to two years. It might also be necessary to find some additional non-executive members to strengthen the new Boards.

15 Sir Michael is confident that most of the management team he has built up at BL would remain to serve the new companies; but he warns that if the present Board's advice on structure is over-ruled, this would not be the case; that Messrs Horrocks and

Andrews might not agree to continue (the latter particularly if Land Rover were sold against the commercial view of the Board) and that other senior executives would follow; it would clearly be a very serious matter indeed if we had to find not only a complete new Board but were also faced with a need to reconstruct the top executive management of the company in circumstances of crisis.

Limitations on Government funding

16 You asked about the implications of the BL Board's absolute commitment to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plan; and the Chancellor commented on the possibility that splitting BL into two would reduce the diciplines on management to contain financial requirements.

17 The BL Board has offered an undertaking to ask for no more public funds beyond the £150m. As explained above, I envisage telling BL that they cannot have the £150m, but must instead realise Land Rover, keeping the proceeds subject to our accepting the 1983 Corporate Plan due in the autumn. I envisage that the Board would be asked for a corresponding undertaking that they would ask for no further funds beyond the £990m plus retention of Land Rover proceeds.

18 As to whether such an undertaking (if offered) from the present Board could be considered binding on the Boards of the two separate successor companies, I believe it would to the extent that they would consist almost entirely of the members of the present Board. As to what would happen if, later on, the need for additional funding became inescapable, there would be the following options:

(i) the Board or Boards might consider increasing their private sector borrowing, as you envisage, e.g by way of a new medium term loan with the Government's implicit guarantee under the existing assurances. But this would adversely affect BL's debt equity ratio, and the banks would, on past experience, be reluctant to advance further loans on a poor gearing ratio without a formal Government guarantee. The company might increase its short term borrowings by way of overdraft, but would probably only do this to meet a temporary deterioration;

(ii) the Board would be more likely to review the Plan of whichever business was causing the trouble. This might lead to additional closures and redundancies, or some other remedial action; or to a decision to liquidate the business concerned;

(iii) the Board could, despite its commitment, seek additional money from the Government; or, more likely, present the Government with the option of closure or more money. This would leave us with a difficult choice; in order to avert a major closure close to an election, we could feel obliged to put up extra finance.

19 I do not think it is realistic to exclude any particular course in advance - we do not know what situation might arise, and at what time. But that enhances the importance of the commitment the Board is now offering. I do not agree with the Chancellor's view that the assurances of the present Board are of little value.

I do!

MT.

20 As to the Chancellor's point, (that splitting the company would erode financial discipline), I think the reverse of what he suggests may be the case: Boards responsible for smaller companies should be able to keep them under tighter financial control, and thus restrain the need for external finance, to a greater extent than a unitary Board.

Jaguar

21 Finally, you asked whether the accounts of Jaguar could be made up as for a separate unit. At present Jaguar Cars is a distinct commercial operation within the BL Cars Group, but it does not own its assets. It can assess its profit and cash position, but it does not have a separate capital structure. It would of course be possible to draw up full accounts, but as it does not have a separate accounting function, it would take until the end of this year. I do not think it would be wise to take an initiative with BL over the sale of Jaguar at this stage. Jaguar made a trading loss of about £25m in 1981 and is forecast to trade at no better than break even in 1982. Substantial cash outflow is likely to continue for the next two years because of a major programme of capital investment in a new engine and new model for Jaguar which will be launched in 1984. Moreover, many BL volume car dealers depend on Jaguar sales for their profitabilty, and sale of the business to another company would undermine the dealer network and destroy confidence in the recovery of the Cars business as a whole. Meanwhile, high level talks are taking place between BL and BMW about collaboration on a smaller version of the Jaguar which would replace BMW's present "5 series" model. BMW have expressed interest in taking a minority stake in Jaguar. If these talks come to fruition in the next few months, BMW would contribute to the future capital requirements of BL Cars, and this might lead to an even closer link between the two companies.

how much money would they put in

SECRET

22 I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Trade, the Secretary of State for Employment, Sir Robert Armstrong and Mr Sparrow; and in view of the defence implications of selling Land Rover, I am also sending a copy to the Secretary of State for Defence together with copies of my minute of 16 March, your Private Secretary's letter of 22 March, and the Chancellor's letter of 6 April.

CN

for P J

16 April 1982

Department of Industry
Ashdown House
123 Victoria Street

SECRET

Prime Minister

cc. JV

(2)

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This is for discussion at a meeting arranged for after Easter.

MCS 6/4

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

6 April 1982

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

Dear Patrick

BL FUTURE STRUCTURE

I have thought carefully about your minute of 16 March on the future structure of BL in which you come down on the side of the Board's proposal to split the company rather than the consultants' recommendation to preserve the present unified structure. As you say, we face a very difficult choice but my own inclination is to support retention of the existing structure.

I believe this course has four main points in its favour. First, I think it will be more difficult to contain the level of future Government support to BL if the provision has to be divided two ways. Flexibility in allocating money between the various parts of the company will diminish and individual Chairmen will tend to establish their own priorities. Moreover, in contrast to a Board able to exercise overall strategic management and control, the Chairmen will be reluctant to contemplate slimming or closing down loss-making activites when to do so would seriously emasculate their company's status. I am aware that the existing Board have given assurances that the two chairmen will adopt a robust attitude towards these issues, but the value of these assurances must be open to doubt. We could, I believe, have more confidence in such assurances if we could obtain them from a new Chairman of BL as a whole, as a condition of this appointment.

Second, there is the question of privatisation, in particular of Land Rover. On the face of it, it is not clear that the company's structure should necessarily impede this objective if the will is there to carry it out. On balance though I would have thought it is more likely to be achieved with the present unified structure (or by splitting the company up into quite separate and independent components). This is so whether we contemplated privatisation through outright sale or through a share issue. In the case of outright sale, it is hard to imagine the management of the Leyland/Land Rover Group agreeing to the loss of its profitable part, leaving it with a loss-making rump. And privatisation through a share issue would be more difficult if Land Rover is linked with the Leyland Group, whose future is the most doubtful

/of the

of the major components of the BL Group. A better possibility of achieving this form of privatisation is surely offered by keeping Land Rover under the umbrella of a holding company. (My own preference, incidentally, would be in favour of privatisation through the share issue route, though I would not rule out some degree of participation by an overseas manufacturer.)

Third, while I take note of your reservations concerning the consultants' judgements about some of the individuals, I am concerned to see that the consultants doubt whether the two potential Chief Executives are up to the job. My view is that our best approach would be to seek a successor for Sir Michael Edwardes as Chief Executive of the remaining BL structure. I recognise that it will not be easy to find a person with the necessary qualities but I cannot believe it is impossible. If necessary we could look abroad.

Finally, I am doubtful whether retaining a unified company need jeopardise the future of its viable parts. BL volume cars are slowly improving their image, although they have a long way to go. As for industrial relations, the consultants point out there is little evidence that trouble in one part of the Group spills over into others. Last November, for example, although Land Rover became involved, Leyland Vehicles was not affected. Similarly problems earlier this year were specific to the Leyland Group and did not affect other parts of BL.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Trade and Employment, Sir Robert Armstrong and Mr. Sparrow.

GEOFFREY HOWE

SECRET

File

cc: HMT
DOT
DIM
CO
CPRS

Ind Pol
A6

10 DOWNING STREET

From the Private Secretary

22 March 1982

BL's Future Structure

The Prime Minister studied further over the weekend your Secretary of State's minute of 16 March, together with the paper attached thereto, about the Corporate Consulting Group's study of the BL Board's proposal on future structure.

The Prime Minister has commented that she considers that Land Rover should be sold off as quickly as possible (she does not understand why privatisation is expected to take eighteen months, given that Land Rover became a separate company on 1 January 1982). The Prime Minister has further commented that, if Land Rover is to be sold off soon, there is little point in putting it into a restructured company; and that if Sir Michael Edwardes is not staying on, the new Chairman should have the main say in any changes in the structure of the company which are to take place.

The Prime Minister enquires whether the accounts of Jaguar could be made up as for a separate unit.

The Prime Minister also has enquired about the implications of the Board's "absolute commitment to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plans", to which your Secretary of State referred in paragraph 7 of his minute. The Prime Minister is not clear how the commitment of the present BL Board can be binding on the Boards of the two separate successor companies. She wonders, too, if, in the eventuality of BL finding that additional funding is inescapable, the Board would seek to honour the letter of its commitment by seeking to raise private sector loans on the basis of implied Government guarantees; or whether it would, in those circumstances, be more likely to say that there was no commercial case for continuing with the plan and would then propose some degree of winding up - possibly at a time which would not be of the Government's own choosing. The Prime Minister concludes that, before the Government accepts the "absolute commitment" on funding as an important argument for retaining the present Board, these implications need to be assessed carefully.

/ I would be

SECRET

I would be grateful if you would put in hand, in time for the 21 April meeting, such an assessment. The Prime Minister would also like to see, in time for that meeting, a specific plan for the total privatisation of Land Rover. She asks, too, what plans the Department of Industry has for ensuring that the strength of the Board and management of the two new companies would be adequate for the tasks facing them.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

JFF323

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COPY No. 1

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

19 March 1982

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

PM has seen.

Dear Michael.

BL's FUTURE STRUCTURE

I enclose for the Prime Minister's information a copy of BL's reaction to the Corporate Consultants Group Study on BL's future structure, which should have been enclosed with the Secretary of State for Industry's minute to the Prime Minister of 16 March 1982.

2 Please accept my apologies for any inconvenience caused. I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment, and to Sir Robert Armstrong and Mr Ibbs.

Yours Sincerely
Kim Benson

KIM BENSON
Private Secretary

Copy

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

From Sir Michael Edwardes

8th March 1982

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

CONFIDENTIAL

Dear Patrick,

FUTURE ORGANISATION OF BL

I am grateful to you for finding the time for an early meeting about the consultants' report, and I appreciate in particular your agreement to my request for Leslie Dighton* to be present tomorrow. I have a number of important questions to raise with the consultants, and as their report is now in your possession I believe it is vital that you should hear those concerns - and the consultants' response - at first hand.

By way of preparation for tomorrow's meeting, I enclose our analysis of the consultants' report. It reflects the Board's first reaction to the report, though some of the concerns I shall voice tomorrow go beyond the scope of staff analysis. The paper stops short of an exhaustive point-by-point refutation, in the hope that it will be read by all those in Government who read the report itself.

Yours
Michael.

* And of course hope that Alan will be present.

Enc:

REPORT ON THE FUTURE ORGANISATION STRUCTURE OF BL

BL's COMMENTS

1. The report's rejection of the BL Board's proposal for a split into two separate companies and its advocacy of a unified BL appear to rest on:-

   a. a series of second-guesses of the Board's judgements about the future management of the company, particularly as regards the requirements for future leadership; and

   b. two unsound and unsubstantiated assumptions relating to the privatisation of Land Rover.

LEADERSHIP

2. The consultants query the Board's judgement about the required "leadership configuration" for the next phase of BL's recovery. The consultants do not appear to contest the Board's view that the existence of a central focus in the form of a well-known full-time Chairman of BL serves to elevate issues (particularly in the industrial relations field), attract media attention and offset the considerable efforts which have been made to play down the "British Leyland" image and promote the images of the individual product companies and marque names. Thus they agree that the demands on such a leader would continue to be very great. However, they state that the necessary combination of leadership qualities is more easily to be found and deployed in a single Executive Chairman of a unified BL than in two teams, each consisting of a non-executive Chairman and a Chief Executive, as recommended by the Board. They further imply that a successor to Sir Michael Edwardes, possessing all of the necessary qualities and being subject to all the existing pressures on that role, could nevertheless be more successful in lowering the public profile of BL and its Chairman, thus enabling the operating subsidiaries to come through publicly.

3. These conclusions are illogical and contrary to the experience of the BL Board over the last 4 years. Its judgement is that a direct successor to Sir Michael Edwardes would (even if a suitable person could be found) face a much more difficult task than would the leadership of the two new companies under the Board's proposed structure, particularly as he would inevitably be tested (e.g. by left-wing militants) by way of comparison with his predecessor. He could not avoid a high public profile; his status would have to be very considerable at the outset in order to qualify him for the job, and this in itself would attract media attention.

4. Since the consultants envisage that a full separation into two companies would be possible after two more years, a new full-time Chairman would presumably be expected to take on only a 2-year assignment. Given the lengthy learning curve which is inevitable in a company posing such complex and varied problems as BL, this would appear to be a further obstacle to the attraction of a suitable candidate - and it does nothing for continuity.

5. The main grounds on which the consultants appear to question the leadership configuration proposed by the BL Board relate to the balance of responsibility and power between non-executive Chairman and Chief Executive in the two new companies. They suggest that the pressures on a non-executive Chairman would make his position untenable, and that he and the Board might be dominated by the Chief Executive who would tend to be less objective about such issues as major closures or privatisation.

6. The configuration of non-executive Chairman and Chief Executive has been well tried and tested in many major companies. It enables complementary qualities to be brought together at the top of a company which cannot easily be found to co-exist in a single person. Moreover, it is designed specifically to avoid executive dominance of the Board, which is much more likely to occur under an Executive Chairman. Thus the high priority which both Government and Board attach to objectivity would be better fulfilled by putting the chairmanship, together with the majority on the Board, into non-executive hands. In the Board's judgement, the job of non-executive Chairman is manageable in the two new companies, but not in a unified BL. It might require rather more than the traditional 10% of the Chairman's time but not by any means a full-time commitment.

7. The consultants suggest, without any evidence, that the Chief Executives of the two new companies would be inexperienced in taking positions of prominence. On the contrary, senior executives in BL have had considerable experience (by the general standards of British industry) in dealing with both the media and the Government. This has been encouraged by the devolution of responsibility under the present Chairman as BL has evolved towards a two-company managerial structure.

8. The report suggests that a unified structure would best preserve continuity from the present Board and management team, provided that a successor to Sir Michael Edwardes was "supported by the maximum continuity from the present Board". The consultants had no grounds for assuming this would be the case. Indeed it is difficult to understand how they could question the view advanced by the Board, when they were given evidence to the effect that continuity would be more certain under a split structure.

9. The consultants seek to avoid the problems of manageability and continuity in a unified structure by suggesting that Sir Michael Edwardes should continue in the Chairman's role for two further years on a part-time basis. In view of his disagreement with the concept of maintaining a central focal point (a unified BL) he has ruled out this possibility.

OTHER COMMERCIAL AND MANAGERIAL CONSIDERATIONS

10. The report questions the Board's judgement of the balance of advantage between a two-company split and a unified structure in several other commercial and managerial areas.

A. Industrial Relations

The consultants argue that all the Board aim to achieve in the industrial relations field by a two-company structure could equally be achieved by decentralisation of managerial authority and of wage bargaining within a unified structure. The Board's judgement, however, is that the maintenance of a unified BL with a central focal point would detract from the effectiveness of any decentralisation and would continue to attract disproportionate interest from left-wing militants who see BL as a major political target - and that the best way to finesse the militants is to establish two separate entities, fully insulated from one another.

B. Vulnerability

The consultants agree that the balance of the argument on vulnerability favours the Board's proposal but assess this balance as only marginal. They neglect the simplest and most important advantage of a two-company split as against the present centralised financial structure - that, if there is a crisis in one of our major operating companies, only half of the present BL would in future suffer from the uncertainty surrounding that crisis. In present circumstances, this uncertainty (affecting dealer, customer, and collaborator confidence as well as the attitude of BL's bankers) would last for many months because of the triggering of default clauses in BL's loans, resulting in a requirement for temporary Government guarantees and a lengthy period of financial re-negotiation.

C. Collaboration

The consultants state that other manufacturers wishing to collaborate with a particular part of BL would be as easily attracted by a decentralised management structure within a unified company as by a complete split into two companies. They produce no evidence for this. The Board's belief to the contrary is based primarily on the vulnerability argument above. Potential collaborators with the cars or truck businesses would prefer that their collaborative partners were not subjected to crises of confidence arising from problems in totally separate sectors of the business. Effective insulation of the individual sectors cannot be achieved while a centralised financial and legal structure remains.

D. Central Staff Functions

Paragraph 5.3 of the report, together with paragrap[h] 3 in Exhibit D, comment both on the "undesired loss of central staffs and disturbance to management systems" which the consultants believe could result from the Board's proposal, and on the useful role of central staffs in coordinating policies which have common elements across the various business components.

Quite apart from the conflict of this plainly managerial judgement with the consultants' terms of reference which acknowledged the Board's responsibility in these matters, the consultants have over-estimated both the importance of central staffs in determining the fortunes of the company under the present structure and the risks of disruption due to loss of key staff personnel. If the Government gives early approval to the Board's proposal, sufficient time remains to plan the transfer of staff functions and personnel from BL to the two new companies in an orderly fashion, and with some resulting cost reduction. Below this level, the management of the operating companies is modular and will not be affected by the proposed structure.

The Board's concern, on the other hand, is the very real question of whether we will retain senior <u>line</u> managers under the consultants' proposal.

PRIVATISATION OF LAND ROVER

11. The consultants' case for preserving a unified structure to supervise the total disposal of Land Rover around the end of 1983 rests on two key assumptions:-

 a. that Land Rover should be sold outright at that stage, bearing in mind possible substantial detriment to related areas of the business;

 b. that, if the Government wished this to be done, it would be more likely to secure cooperation from the Board of a unified BL than from the Board of the commercial vehicle company under the proposed 2x2 structure.

12. The first of these assumptions should be considered in the context of the following contradictory statements in paragraph 2.5 of the report: "There are substantial interdependencies between the two components, Leyland and Land Rover, both in the UK and overseas. Both businesses, particularly Leyland, are at a fragile stage in their recoveries and changes which do not carry clear bottom line benefits are difficult to justify." Nevertheless, the report goes on to state in the same paragraph, without any evidence, that by end 1983 "the further separation of the Land Rover organisation would be possible without excessive risk to either component and pave the way for early privatisation".

13. The "substantial interdependencies" identified by the consultants are between Land Rover and Leyland Trucks, rather than the Leyland Group as a whole. Leyland Trucks is clearly the most fragile part of the Leyland Group. It is not due, under the 1982 Corporate Plan, to return to profitability until 1984, and a considerable period would be needed to make its overseas operations independent of Land Rover, if this were the agreed course. The synergy between the two is not a temporary phenomenon. Consequently, there is no commercial foundation for the consultants' estimate as to the optimum timing for any total disposal of Land Rover. The timing of total privatisation needs to take account of how Leyland and Land Rover develop and of the total prevailing economic circumstances. Premature privatisation of Land Rover could well require review of the Leyland Trucks Plan.

14. With these factors in mind, the Board has favoured - as an alternative means of attracting private equity capital into Land Rover in the short term - the flotation or sale of a substantial minority stake, if possible by the end of 1983. The report does not consider specifically whether this course would be assisted or otherwise by the 2x2 structure. In BL's view, the split into two companies will be helpful in attracting a minority shareholding into Land Rover because of the complete insulation from BL Cars which would be achieved.

15. As regards the second of the consultants' assumptions, we show in paragraph 6 above that thereis no reason to expect a Board with a non-executive majority headed by a non-executive Chairman to be less objective than a Board, albeit with a larger portfolio, headed by an Executive Chairman. Moreover, either form of Board would be guided by commercial considerations and would not regard the premature privatisation of Land Rover as justifiable if it damaged the real prospect of recovery for Leyland Trucks.

16. If, on the other hand, the Leyland Trucks Plan were to fail, then the present Board including the Executive Directors are committed to close Leyland Trucks, and total disposal of Land Rover would then become commercially feasible. Given the continuity envisaged in the 2x2 proposal between the present Board and the Boards and top management of the two new companies, there would be no reason for this commitment - and indeed the commitment of the Board and management to privatisation in an orderly and commercial basis within the recovery strategy - to change.

CONCLUSION

17. The consultants suggest that BL admits there will be no direct bottom line benefit from the 2x2 structure. This is correct, in terms of short-term impact on PBIT, but it overlooks what is perhaps the key issue. This is that the Board considers that the risks to the achievement of the Corporate Plans of BL's various businesses will be substantially reduced if the two-company structure is adopted - and conversely will be seriously increased if there is major discontinuity of top management and a subordination of commercial considerations to the objective of short-term privatisation. Indeed achievability of the Plan could be at risk, so that the bottom line impact of <u>not</u> splitting could be very great.

18. The Board's view, contrary to that of the consultants, is that the 2x2 structure provides greater flexibility to respond to crises and to press ahead with appropriate degrees of privatisation. The Board sees nothing in the report which detracts from the case summarised by the consultants as Exhibit C for moving to a two-company structure in the course of this year.

RLH/5.3.82.

SECRET

Ind Pol Pt 4

bc JV

10 DOWNING STREET

From the Private Secretary

18 March 1982

Dear Jonathan,

BL's FUTURE STRUCTURE

The Prime Minister was grateful for your Secretary of State's minute of 16 March about the Corporate Consulting Group's study of the BL Board's proposal on future structure.

The Prime Minister would like to hold a discussion on these matters. The earliest date for this is, I fear, Wednesday, 21 April at 1600, and we have made arrangements accordingly.

I am sending copies of this letter to John Kerr (H.M. Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

SECRET

(1) cc J.V. 3

(1) Land Rover should be sold off as quickly as possible. I do not understand why it is expected to take 12 months when it became a separate company on 1 Jan 1982.
(2) If it is to be sold off – I see little point in putting it into a restructured company.
(3) If M.E. is not staying – the new chairman should have the main say in any changes.
(4) Can Jaguar's accounts be made up as a separate unit.

In meantime let work on 8 a b + c go ahead.

Prime Minister

Robin Ibbs has suggested that work on 8 (a) (b) and (c) could be commissioned immediately, to assist the discussion (which cannot take place until April 21).

Agree?

Or would you prefer to defer any action until the meeting?

MCS 19/3

SECRET

Qa 05862

To: MR SCHOLAR

From: J R IBBS

17 March 1982

BL's Future Structure

1. In his minute dated 16 March the Secretary of State for Industry recommends agreement to the BL Board's proposed new structure for the Company, namely that it should be split into two separate companies each owned directly by the Department of Industry.

2. There are three obvious alternatives -

(a) to accept the BL Board's proposal;

(b) to insist on a unified structure with a number of independent business units as recommended by the Consultants, and to seek a new Chairman to take over in November;

(c) to insist on a unified structure and in view of the disagreement with Michael Edwardes to replace him immediately, and also the Board if need be.

3. If I judged there were reasonable prospects of BL becoming viable I would advocate alternative (c), not least because the air of negotiation and blackmail that hangs over this entire issue, from the haggle over objectives onwards, is not really acceptable. However, since Michael Edwardes is popularly regarded as 'a success' public ructions with him could well transfer to the Government entire responsibility for the next failure of the Company to come up to expectations. This is almost certain to occur whether there is a unified structure or two separate companies. Alternative (c) therefore has to be contemplated very guardedly.

4. As regards alternative (b), retaining the unified structure and replacing Michael Edwardes in November, it seems reasonable to suppose that in view of Michael Edwardes' expressed view this would merely invite failure.

5. The alternative (a) of having two separate companies, as well as being inferior in the judgement of the Consultants, is not risk-free. Apart from the considerable likelihood of failure of one or both of the

companies, making the split may involve major trouble with the Unions and, in view of the dubious prospects, setting up new loans may pose difficulties. The Consultants' report (paragraph 6.6) also pointed to potential management weaknesses in the separate companies.

6. I am also concerned about the implications of the 'absolute commitment to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plans'. (Nor is it clear how the commitment of the present BL Board can be binding on the Boards of the two separate successor companies, particularly if these are strengthened by new members, as the Consultants imply will be necessary; there is the further practical problem of establishing that the split of BL's very limited financial reserves has been 'fair'.) For a Company with a chequered history, previous consistent failure to meet profit targets, and the weak market position of BL, the chance of something occurring that makes continuation dependent on additional funding must be very significant. In the event of such difficulty does the Board expect to be able to raise private sector loans on the basis of implied Government guarantees and so honour the letter of the commitment? Or does it intend to 'withdraw the Plan' stating that there is no commercial case for continuing and propose some degree of winding up? If the latter is envisaged, the Government needs to be clear now on the political implications. It may face some closures with widespread unemployment consequences at perhaps an electorally embarrassing time; the alternative would be the embarrassment of renewed funding probably against the proclaimed commercial judgement of the Board. Only if closure is the result of action by the work force is it likely to be other than embarrassing. Before accepting the commitment on funding as an important argument for retaining the present Board, the Government needs to assess these implications.

7. The Secretary of State describes the fact that the Board has commissioned 'further work on the feasibility of total privatisation of Land Rover at the earliest opportunity' as a major concession. The implication that they might choose not to examine such a possibility

when requested to do so by their shareholder is evidence of the extent to which the Government has lost effective control of the Board. I would not regard any worthwhile concession as being achieved until they come forward with a firm plan that is robust to the proposed separation of BL into two companies, with a specific date that looks realistic.

8. On the assumption that the risks and difficulties inherent in immediate replacement of Michael Edwardes now rule out that alternative, the practical conclusion is to accept the BL Board's proposal as recommended by the Secretary of State. However, I suggest this should not be done, despite the need for great speed that Michael Edwardes will argue, until -

(a) the implications of the commitment on no additional funding have been established;

(b) a specific plan for the total privatisation of Land Rover has been produced;

(c) the Department of Industry has provided plans for ensuring that the strength of the Boards and management of the two new companies will be adequate for the tasks facing them.

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

JH

SECRET

2

cc Mr. Hoskyns
Mr. Walters

MR. SCHOLAR

BL's future structure

I have discussed Patrick Jenkin's note of 16 March, which covers the CCG Report on the future structure of BL, briefly with John Hoskyns. The Policy Unit would like to submit considered views after we have all had time to study these papers. Meanwhile I would like to offer two thoughts:

(i) There are now broadly two camps: the consultants and the CPRS (with whom I have discussed this briefly) believe that the present unitary structure of BL should be retained; but the BL Board, and the Department of Industry, believe that the present organisation should be split into two separate companies, broadly Cars and Commercial. The Policy Unit has hitherto taken the view that although these organisation and structural questions are of great importance, they ought to follow rather than precede Ministerial decisions on the extent and rate of privatisation they wish to see in BL, and on how a new Chairman might be found prepared to put that into operation.

(ii) I understand that Mr. Jenkin will be away for ten days as from the end of this week, but it seems to me inevitable that there will need to be some collective discussion of the Report and Mr. Jenkin's recommendation on it. The CPRS tell me that Mr. Ibbs is preparing a note: and I have already been called by Michael Edwardes' Private Secretary, stressing the need for speedy decisions (although it does not appear that there is any particular deadline to meet).

John Vereker

17 March 1982

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JH 361

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(1)

Prime Minister

The Policy Unit will be putting advice to you on this. Pl. see Robin Ibb's note (attached) and Rbt Armstrong's earlier note. (attached) Do you wish to discuss with the small group of Ministers? Given your full diary* it would probably have to be after Easter. MCS 17/3

* and Mr Jenkin's visit to N America

PRIME MINISTER

BL'S FUTURE STRUCTURE

At your meeting on 14 January, it was agreed that the Government should seek independent advice on the BL Board's proposal on future structure. The Corporate Consulting Group (CCG) were retained, and they have now completed their study. I attach a copy of their report, which has been seen by the BL Board. I also attach a restricted annex containing the consultants' appraisals of the present Board members which has not, of course, been seen by BL; I have some reservation about some of the personal appraisals, which seem to me based on relatively slight acquaintance.

Agreed MT

2 The study has centred on the only two options the consultants considered viable:

(a) the BL Board's proposals to split the present organisation into two separate companies, each owned directly by the Department of Industry; and

(b) to retain the present unified structure as a holding company with a number of independent business units.

The consultants did consider the possibility of splitting BL into four independent companies instead of two; but concluded that the interdependencies and synergy between the Cars Group and Unipart (which they saw as permanent), and in the short to medium term between Land Rover and the Leyland Group, precluded this option.

3 The CCG's conclusions are set out on pages 9 and 10 of their report. The principal ones are:

(a) both of the structures they considered are potentially viable;

(b) since the critical issues facing BL remain large, there is a continuing leadership requirement of the **most substantial kind,** which might not be adequately met by the present Chief Executives (Messrs Andrews and Horrocks) with only part-time Chairmen;

(c) in most respects a unified structure would be more resilient and manageable, though the consultants agree that splitting the company into two would somewhat reduce the risk of industrial relations trouble spreading from one side to the other;

(d) Land Rover is the only part of BL which offers much hope of privatisation within the next two years,* and

* Annex J of their report indicates how limited the scope for privatisation is.

the Board's proposal to split the company into two could be an impediment to achieving this, primarily because the Board of the "Commercial" company (Land Rover + Leyland Group) would be more reluctant to part with half their empire than the Board of the unified company to part with a much smaller part of the whole.

The consultants therefore advocate retention of the present structure with a full-time Chairman of high calibre, though they point out that if such a person cannot be found this would substantially reduce the balance of advantage in favour of this option. As an alternative, they suggest that Sir Michael could become part-time Chairman of the unified company.

4 Robin Ibbs and I have discussed the report, first with the consultants and subsequently at a meeting with Sir Michael Edwardes at which the consultants were present. Sir Michael (and his Board) were highly critical of the report, and prepared in advance a critique which claimed that the consultants had made a series of unsound "second guesses" of the Board's commercial judgements about the future management of the company, and two unsound and unsubstantiated assumptions relating to the privatisation of Land Rover. A copy of this critique is attached. Sir Michael has also made it clear to me that he would not be prepared to stay on after the end of this year as a

part-time Chairman of BL, since he is quite convinced that splitting the company into two is the right way to meet the Government's objectives for it, namely the achievement of recovery, limitation of Government funding and privatisation. The main arguments against the line taken by the consultants are as follows:

a) the present unified structure of BL magnifies and dramatises the problems of the company. The bad image of 'British Leyland' lingers on, there is always strong media interest in the company, and there is still a tendency to 'knock it';

b) as we saw in the pay dispute last November, there is a great risk of industrial relations problems in the Cars Group spilling over into Land Rover. This will be only partially removed if Land Rover is taken out of the Cars bargaining arrangements, but would be completely removed if BL were split into two;

c) two smaller companies would be easier to manage than one and the financial exposure of the company and the Government would be less if there were a disastrous strike in one or other of the two companies than if the whole company went down. The existence of two separate companies would also lessen the impact of such a disaster on the surviving company's dealers, customers, bankers, collaborators, and potential private investors.

5 For these reasons, the Board remain convinced that their original proposal represents the best way forward for the company. This presents us with a very difficult choice. Either we can build on what has already been achieved by the present Board and allow them to continue with their present strategy under the new structure (the Board have given a firm commitment that they will not seek any further Government money beyond the £150m of equity identified in the last two Corporate Plans for 1983/84 and 1984/85); or we can go down the route suggested by the consultants, try to find a new Chairman and a new Board and allow them time to work out a new strategy. It would, in fact, be extremely difficult to find a suitable successor to Sir Michael Edwardes in a unified structure. Moreover, there would be risks attaching to discontinuity of management, the risk that the unions would seek to challenge the situation, and the risk that a new Chairman would not feel the same commitment as the present one does, not to seek further large scale finance to keep BL going. The difficulties in finding a new Board willing to take over from the present one at the end of this year would be increased still further if it became known that the latter had been overruled by the Government on a matter which they (the present Board) regarded as of crucial importance.

6 The vital aspect of the whole problem is whether the BL Board's proposal would, as the consultants suggest, be an impediment to early privatisation of Land Rover. With this in mind, I asked Sir Michael when I met him to consider what new commitment his Board would be able to give the Government about the early disposal of Land Rover. He replied to me on 11 March, and I attach a copy of his letter. In the third paragraph of this letter he says that BL are pressing ahead with the preparations foreshadowed in the 1982 Corporate Plan for the introduction of private equity capital into Land Rover with the intention of achieving this within the next two years. In addition, and following the establishment on 1 January 1982 of Land Rover as a separate company within the BL Group, the Board has now commissioned further work (which I understand will involve the collaboration of Hill Samuel) on the feasibility of total privatisation of Land Rover at the earliest opportunity. This is the first time that the Board has been willing to contemplate such a possibility - though as yet without commitment - and I think this represents a major concession on their part. ??

7 In view of this, and also of the absolute commitment in the letter that the new Boards (based on the present Board membership) would stick to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plans, I recommend that we should agree to the BL Board's proposed new structure for the

company.

8 I am advised that simple primary legislation would be needed to regularise this position; and indeed that it would be desirable that Second Reading should have taken place before the split is carried out. If we decide to proceed with the legislation on the BTG, that Bill would provide a suitable opportunity.

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

PJ

P J

16 March 1982

Department of Industry

TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

11th March 1982

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

STRICTLY CONFIDENTIAL

JWB 12/3

TO Mr Bofeld

FOR ... DRAFT REPLY (IF APPROPRIATE) PLEASE BY:

NOON 18/3/82

PS/NL
PS/JW
PS/SEC
Mr Manzie
Mr Mountfield

Dear Secretary of State.

In the light of the consultants' report on BL's future structure and of our discussion on 9th March, the Board has given further thought to the aspects of its organisational proposals which bear most closely on the Government's main objectives as we understand them - i.e. the achievement of recovery, the limitation of Government funding, and privatisation.

We believe that each of these objectives can be achieved with less risk by a split into two companies than within a unified structure:-

1. We have argued that a two-company structure will reduce our present vulnerability to industrial relations crises, as well as improving our commercial prospects in other areas such as collaboration. An even more important factor underpinning the Corporate Plans of our various businesses would be the continuity at Board and top management level which the Board's proposal offers and which in turn would reduce the risk of an exodus of the senior management of our operating companies. As you know, I am willing to stay as a non-executive director of both of the new companies if this is considered helpful.

Continued

2. The continuity between the present Board and the Boards of the two new companies will serve to maintain our absolute commitment to the limitations on Government funding envisaged in the 1981 and 1982 Corporate Plans. The Board reiterated this commitment at its meeting on 10th March.

3. As I have already emphasised to you, the Board is fully committed to the free enterprise philosophy and shares the Government's objectives which include the return of BL's businesses to the private sector as soon as practicable. The consultants' report has indicated that Land Rover provides the best prospect of progress towards this objective in the short term but that there are substantial interdependencies between Land Rover and Leyland Trucks which need to be taken into account. We are pressing ahead with preparations for the introduction of private equity capital into Land Rover, as envisaged in the 1982 Corporate Plan, with the intention of implementation within the next two years. Further progress has been made since submission of the Plan, with the establishment of the Land Rover Group as a legal entity on 1st January 1982 and the decision (soon to be announced to the trade unions) to separate Land Rover from the BL Cars bargaining unit this year. In addition, the Board has now commissioned further work on the implications and feasibility of total privatisation of Land Rover. This work will include examination of the earliest sensible timing on a variety of assumptions about the method to be adopted for the transfer of ownership and about the economic environment. You have the Board's assurance that the fruits of this work, as agreed with the Government, will be carried through under the new structure which we propose.

Yours sincerely,
Michael Edwardes

The National Archives

LETTERCODE/SERIES PREM 19 PIECE/ITEM 803 (one piece/item number)	Date and sign
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SECRET

26th February 1982

REPORT ON THE FUTURE ORGANISATION STRUCTURE OF BL

CONTENTS

EXHIBITS

Corporate Consulting Group

REPORT ON THE FUTURE ORGANISATION STRUCTURE OF BL

1 BL's proposal

1.1 The Board proposal is to split BL into two companies with their own Boards, each with a part time Non-Executive Chairman.

1.2 The Non-Executive Directors as a group are strongly committed to the proposal. The extent of their individual commitment varies. They are all sensitive to having their commercial judgment 'second-guessed'.

1.3 Sir Michael Edwardes sees the split into two companies as a natural extension of the decentralisation which has already occurred. The two Executive Directors also support the proposal, with provisos concerning the choice of Chairmen and the objectives of the new companies.

2 Interdependencies

2.1 The realism of fragmentation of the corporate structure whether into two companies, or more as has been suggested might apply to Cars, is conditioned by the extent of interdependencies between the business components. These are such as to restrict for the immediate future the options for corporate structure to two.

2.2 The interdependencies between Cars and Commercial are not sufficient to invalidate the proposed split into two companies. There are, however, risks and potential loss of synergy, arising from the separation of Land Rover from Cars.

2.3 Jaguar has extensive interdependencies with Cars and the benefits of the common franchise to Volume Cars would be lost by separation in advance of a consolidation in the recovery of Volume Cars.

2.4 Unipart is a service business integral to Volume Cars and makes no commercial sense as a wholly separate business, except in the event of the liquidation of Cars, when it would have some residual value as a diminishing trade.

2.5 There are substantial interdependencies between the two components, Leyland and Land Rover, both in the UK and overseas. Both businesses, particularly Leyland, are at a fragile stage in their recoveries and changes which do not carry clear bottom line benefits would be difficult to justify. That fragility reduces as their business plans are accomplished and, by end 1983, Land Rover in particular could be approaching a position of viability and self-sufficiency of systems. At that time the further separation of the Land Rover organisation would be possible without excessive risk to either component and pave the way for early privatisation.

2.6 In the longer term, assuming business outcomes substantially as envisaged in the '82 Plan, Volume Cars and Unipart, Jaguar, Land Rover and Leyland could all have achieved a level of self-sufficiency to achieve further fragmentation of the corporate structure, if considered desirable.

3 The options

3.1 The immediate options in terms of corporate structure are therefore confined to two - the preservation of a unified structure, containing a number of independent business units, or the separation of the present structure into two companies.

3.2 The case put forward by BL for splitting the Company into two rests essentially on two arguments. First, it claims to address the issues of manageability and commercial direction better than any other; second, it reduces the vulnerability of the whole company to the effects of a crisis arising in one of the parts in terms of financing and confidence. It also holds that the split would not impede privatisation, and solves the problem of succession to Sir Michael Edwardes.

3.3 The case for maintaining a unified structure rests on three main points. First, the size of the issues confronting BL, as far ahead as one can see, demand the highest possible leadership configuration in succession to Sir Michael Edwardes and are too large for the positions of part time Non-Executive Chairmen to be tenable; second, the likelihood of recurrent crises requires a resilient structure, which preserves the widest possible range of options for the Board and facilitates the maximum degree of objectivity and realism; third, it facilitates the pursuit of privatisation. It is also held that the principal vulnerabilities can be addressed largely without recourse to structural change.

4 The key issues

4.1 The commercial background against which either structure would operate will continue to be weak and full of uncertainty. It is, however, different to the heritage assumed by Sir Michael Edwardes. The serious financial condition at the end of 1977 did not reflect the full extent of the underlying bankruptcy of the business. Plant and products were out of date, facilities needed rationalising, costs were grossly uncompetitive and organisation had become excessively centralised. As a result, market shares were declining, cashflow was negative and management had lost its nerve and its will to manage.

4.2 Since that time shareholders funds of about £1 billion have been put in to finance losses,to rationalise facilities and products, and to reduce the workforce by some 75,000. The Metro has been successfully launched and a number of collaboration deals have been concluded or are in negotiation.

4.3 Perhaps the most striking manifestation of renewal has been the restoration of management initiative and the establishment of a more manageable structure with greater decentralisation and accountability.

4.4 Despite this progress, BL is still in crisis. Earlier plans have drifted in key areas. Heavy losses continue and cashflow remains negative. The product range is still weak. Productivity and scale are low in relation to competitors. Business structures and management systems are young and fragile.

4.5 As a result the plans are vulnerable to a wide range of possible perturbations. They assume improvements in market share, resulting from improved efficiency and new products, which may not fully reflect competitors' own advances. A plausible scenario could be one of continuing cash requirements in the quest for viability.

4.6 There are four sets of critical issues currently facing BL. The first is to do with strategy; the second, manageability; the third, vulnerability; and the fourth, privatisation.

4.7 Although different from four years ago, the issues remain large and indicate a continuing leadership requirement of the most substantial kind.

4.8 They also posit the basic requirements for future structure of objectivity, resilience and flexibility.

5 Evaluation of alternatives against the strategic issues

5.1 The strategic questions concern the Company's ability to deliver the Plan and cope with unplanned events. Persistent issues will concern the negotiating posture and limits to be adopted in industrial relations and the attraction of partners to offload fixed costs and secure scale advantages.

5.2 The BL proposal does not claim to improve directly the bottom line. Decentralisation and sharper accountabilities are desirable objectives in their own right and are independent of either corporate structure.

5.3 There is however a set of cost, skill and synergy factors which favour the preservation of a unified structure. Some services are undoubtedly better provided from one centre in terms of cost and quality (tax, legal, treasury, technology and systems). The split into two companies could give rise to some undesired loss of central staffs and disturbance to management systems. These factors are not determinant.

5.4 In terms of strategic direction, the BL proposal makes a general case for the benefits of dedicated Boards totally committed to a narrow range of activities, on the grounds that Cars and Commercial are different businesses.

5.5 The merits of dedicated executive management are self-evident. However, dedicated Boards addressing narrow portfolios run the risk over time of losing objectivity and detachment and the ability to perceive early enough the point at which the underlying assumptions of present strategy have ceased to be valid. Crises demand realistic, stand-back assessment of the widest possible range of options.

5.6 Each company in the BL proposal would be less resilient to any issues such as the closure of Leyland Trucks precisely because of the narrowness of the portfolio. However, structural considerations are less important at the end of the day than the strength of leadership.

5.7 The risk of failing to perceive and grasp a crisis early enough is heightened when the Chairman is part time and Non-Executive. The Chief Executive's perception would be potentially predominant. Particularly in a crisis he may have difficulty in remaining detached and avoiding concern for the wider implications of options, such as closure, for the ongoing rationale of his portfolio and his own future.

5.8 Strategy on industrial relations or collaboration will not be determined by the choice of corporate structure. Both issues are helped by the maximum separation of subsidiary organisational components and of wage bargaining units, which are largely independent of structure.

5.9 In the context of strategic issues, the unified structure is more likely to ensure greater objectivity, flexibility and strength of leadership.

6 Evaluation of alternatives against Manageability

6.1 The issue of manageability is difficult to measure. The problems confronting the Board and the scale and complexity of the business are very large. The Board is of the view that the range of issues is too wide and the incidence of crises too high for a single Board and a single Executive Chairman to handle. Non-Executive Directors commit a substantial amount of time to the affairs of the Company. They argue that the Board, and particularly the Executive Chairman, by virtue of the corporate structure, have a profile which encourages issues to rise to the highest point for resolution.

6.2 They accept on the other hand that many of the major battles have already been fought and ground-rules established for the future. Executive competence is now more broadly based and the preconditions for viability to some extent developed. Nonetheless they feel the need to fragment the leadership task. Their proposal does that by dividing the present position of Executive Chairman across two part time Non-Executive Chairmen. The two Executive Directors become Chief Executives. They already are operating to some extent in that mode and in a unified structure it would be a natural progression to extend the delegation of top leadership further, to reduce the load on a single, highly visible Chairman, without reducing its overall strength.

6.3 The leadership resource envisaged in the BL proposal is considerably less than at present. Two Chairmen each offering a fifth of their time cannot equate with a full time Executive Chairman. The size of the problems confronting the two new Boards can at best be only marginally reduced as a result of the restructuring. The recent Leyland strike has the same dimension whether it occurs in either structure.

6.4 The suggestion that succession will be easier in the proposed structure because the leadership task becomes less onerous is valid only to the extent that the incidence of the problems occurring within each Company will be lower and the risk of spill-over reduced.

6.5 It is not clear how the role of the part time Non-Executive Chairmen of the two new Board will work in practice. The ability of the Chairman, who is ultimately accountable whether non-executive or not, to avoid direct involvement in a crisis is recognised as being extremely difficult. The nature and visibility of the issues which are likely to arise and the need for continuous, sensitive interface with Government will make a part time Non-Executive Chairman's position ambiguous, if not untenable. The intended separation of roles may also force positions of prominence on the Executive Directors for which they are as yet inexperienced.

6.6 On the issue of manageability, the BL proposal is weak because it reduces the quantity of leadership resource and is ambiguous in its definition of leadership roles. This could have serious risks in the handling of a crisis.

7 Evaluation of alternatives against Vulnerability

7.1 The BL proposal attaches great weight to the issue of vulnerability. In a unified structure a crisis in one part of the business exposes other parts to risks in terms of financing, industrial relations, publicity and market confidence.

7.2 In terms of finance a major closure or sale could trigger a renegotiation under duress of the parent company's debt structure and possibly entail the repayment of loans. The BL proposal seeks to reduce those risks by isolating each of the proposed companies from the effects of problems in the other.

The reality of a crisis situation, regardless of corporate structure, would require prompt action including, if necessary, temporary Government guarantees. Such action would mitigate the impact of a crisis on the operational continuity of other parts of the business. Under a unified structure the scale and complexity of a renegotiation would be greater. Under the BL proposal some modest benefit might have been secured through conducting the negotiations outside conditions of duress. However the cost, terms and structure of finance available to the total business, however organised, will be determined primarily by the quantity of assets and quality of earning power of what remains after a crisis, rather than the number of parent companies.

7.3 In terms of industrial relations there is the constant risk that disputes might spread from one part of the company to another. There is little evidence that this has occurred. In fact the degree of insularity achieved has been quite marked.

The risk of cross infection will persist under the BL proposal. The more important means of diminishing vulnerability on the industrial relations front lies in the further decentralisation of authority and structure and, above all, the separation of wage bargaining units. This separation is facilitated by the construction of separate legal entities for the four main parts of the Company introduced on 1st January 1982.

7.4 With regard to the issue of confidence on the part of dealers, customers and suppliers, poor image and high media visibility in a crisis is detrimental to all parts of the Company. The split into two companies may in the long term deflect some of the adverse effects and the search for anonymity of parent company presence will help. However, full resolution of the basic problem of image will depend upon the development of individual images based on the product groups and their commercial success. This can be equally well achieved under either structure.

7.5 On vulnerability, the argument favours the BL proposal, but the balance is marginal.

8 Evaluation of alternatives against Privatisation

8.1 The joint objective of Government and the BL Board is to achieve full privatisation of the Company. BL remains bankrupt against any commercial criteria and the possibility of full privatisation is remote. The possibility of sale to another company on terms acceptable financially and in terms of future employment is also negligible.

8.2 Privatisation options are therefore restricted to disposal of parts of the Company either by flotation or outright sale to a third party. The BL Board is conscious of its responsibility to achieve a 'fair price' and the timing of any disposal will reflect their commercial judgment. Both the Government and the Board are concerned to minimise any negative effects of a disposal on the remainder of the Company.

8.3 Collaboration deals struck to improve the viability of part of the business could subsequently decrease its attractiveness to other parties and thereby impede privatisation. On the other hand, it may also be possible to extend a collaboration arrangement into an equity relationship.

There are no generic interrelationships between privatisation and collaboration; there are only particular cases to be examined on their merits.

8.4 There are no necessary consequences for numbers employed in the event of privatisation by flotation, a precondition of which would be the underlying security of employment. Collaboration deals or disposals to a third party could have significant employment consequences either beneficial or otherwise.

8.5 The privatisation objective requires a structure which is able to respond to specific opportunities as they arise. The narrower the portfolio, the larger the impact of privatisation of a part on the residual structure, and the less its ability to respond flexibly. The proposed split into two companies has this effect.

8.6 Land Rover offers the most realistic opportunity of privatisation over the next two years and an immediate restructuring into two companies could impede this.

8.7 The Chief Executive of the new Commercial company would have understandable difficulty in championing the disposal of the most viable third of its business, particularly if Leyland was failing to perform to Plan. It is also likely to prove difficult to attract a sound management team for the new Commercial company if the objective is to dispose of Land Rover and simultaneously promote the recovery of Leyland.

8.8 Against an objective of early privatisation, the unified structure has a clear balance of advantage.

9 Succession and Continuity

9.1 On the issue of continuity there is substantial value in preserving and building on the hard earned judgment and experience of recent years, and the resolution and unity developed within the present Board. This is most effectively achieved by preserving the present structure. The appointment of a new Chairman might be a significant discontinuity compared with the proposed split into two companies. The disadvantages would be mitigated by the choice of a successor of the highest quality conforming to the emerging leadership profile and supported by the maximum continuity of the present Board.

10 Conclusions

10.1 The immediate options in terms of corporate structure are confined to two - the preservation of a unified structure, containing a number of indpendent business units, or the separation of the present structure into two companies.

10.2 Both options are potentially viable. They have different strengths and weaknesses and carry different consequences, particularly for privatisation and leadership succession.

10.3 The critical issues facing BL remain large. They are to do with strategy, manageability, vulnerability and privatisation.

They indicate a continuing leadership requirement of the most substantial kind. They also posit basic requirements for future structure of objectivity, resilience and flexibility.

10.4 A unified structure has greater qualities of resilience and is more robust in terms of the strategic direction of the business and its manageability.

10.5 Splitting BL into two companies addresses better the issues associated with vulnerability, but perhaps only marginally.

10.6 In terms of privatisation, Land Rover presents the best possibility within the next two years, and a split into two companies now could constitute an impedance.

10.7 The balance of advantage between the two organisational alternatives depends on the weight attached to privatisation and level of confidence of being able to find a suitable successor to Sir Michael Edwardes.

10.8 If high priority is given to early privatisation of Land Rover the unified structure should be preserved at least until this occurs. At that time a principal disadvantage to splitting into two companies would have been removed.

10.9 If it is considered that the right person could be found to succeed Sir Michael Edwardes as Executive Chairman, the case for preserving a unified structure is strong.

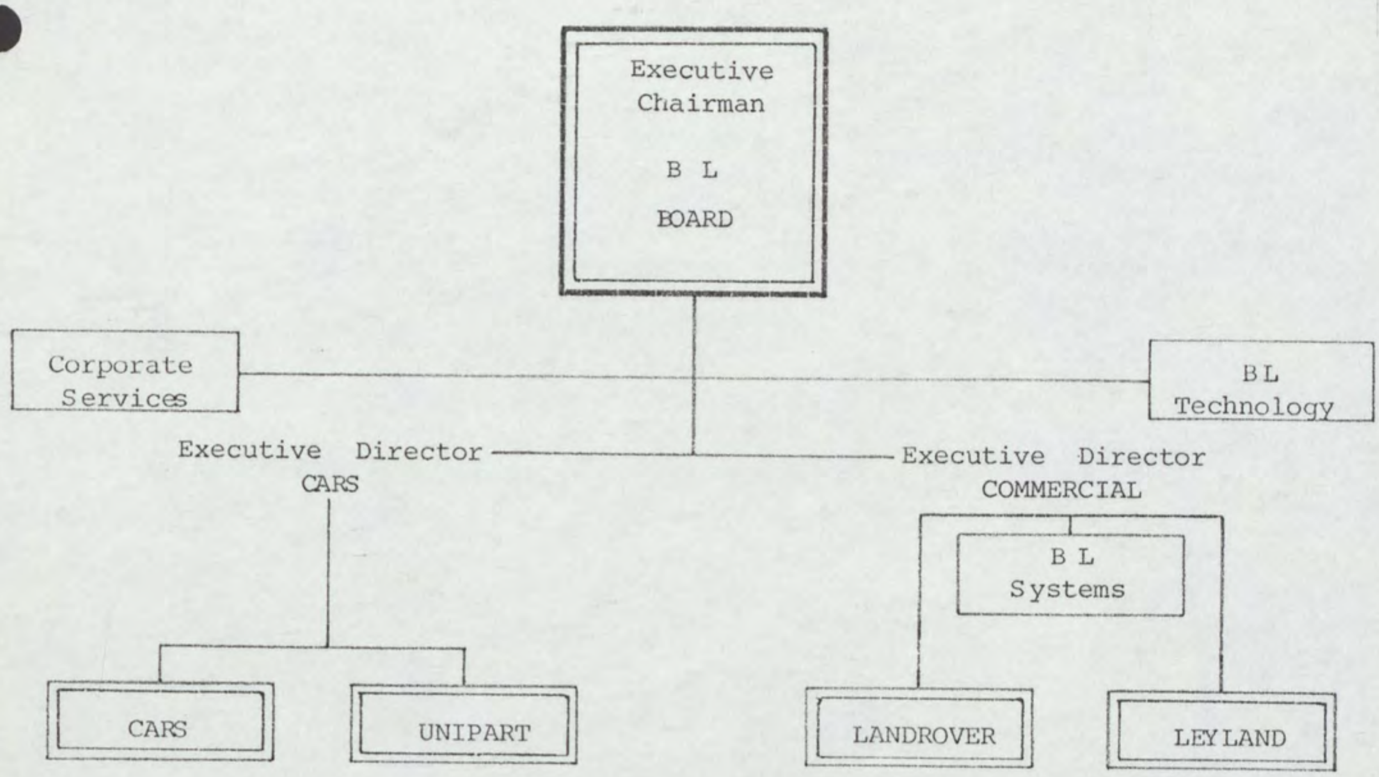
10.10 If privatisation is given lower priority or it is considered that an adequate successor cannot be found then the balance of advantage between the organisational alternatives is substantially reduced.

10.11 An ideal solution could be the retention of a unified structure with Sir Michael Edwardes continuing as Chairman for, say, a further two year period to position the Company for privatisation of Land Rover and the possible subsequent fragmentation into separate corporate entities in the light of the commercial circumstances prevailing. He is in a particularly strong position to achieve the further evolution of the organisation and his stature and knowledge would permit him to perform the role of Chairman on a part-time basis. Such a position would best encourage the greater delegation of corporate leadership to the two Executive Directors in their roles as Chief Executives of their respective parts of the Company.

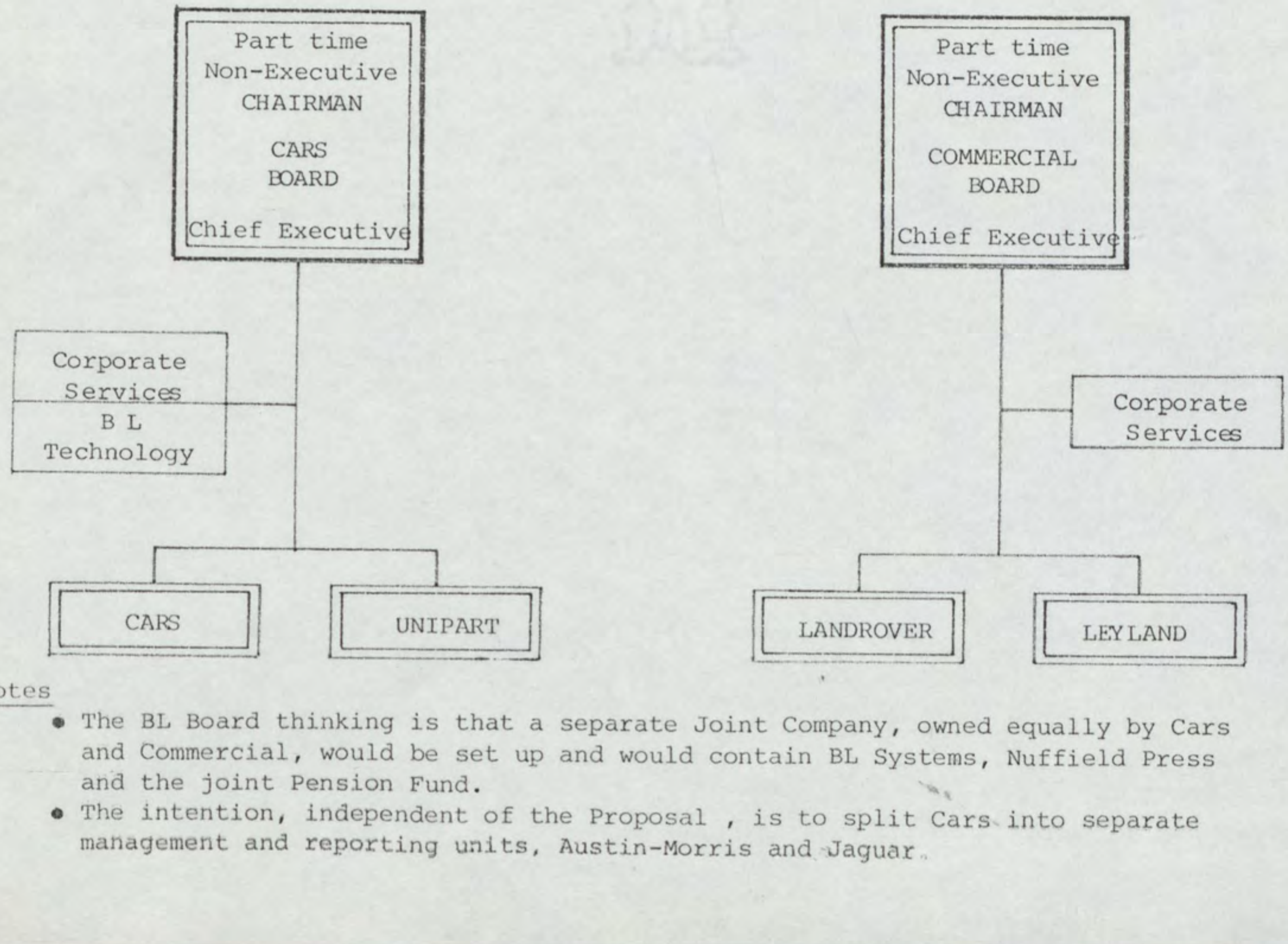
EXHIBIT A

BL ORGANISATION STRUCTURE

EXISTING



PROPOSED



Notes

- The BL Board thinking is that a separate Joint Company, owned equally by Cars and Commercial, would be set up and would contain BL Systems, Nuffield Press and the joint Pension Fund.
- The intention, independent of the Proposal , is to split Cars into separate management and reporting units, Austin-Morris and Jaguar.

EXHIBIT B

THE BL BOARD PROPOSAL

as put forward by the BL Board and agreed with Sir Michael Edwardes on 19.2.82

B.1 The organisation changes proposed are extremely simple. Below the Board they reflect in large measure the present operating structure. There are some complex technical problems associated with implementation, but none are insuperable.

In essence the proposal divides the Company into two free-standing legal entities created around the management structure as it currently exists immediately beneath the BL Board.

One company would comprise Cars and Unipart (Cars); the other Leyland Group and Land Rover (Commercial). Each would have its own Board. The present BL Board would cease to exist.

B.2 The proposal does not change the structure of the four main business components - Cars, Unipart, Land Rover and Leyland - which became legal and management entities in their own right on 1st January 1982.

B.3 The present Corporate Staffs would be broken out across the two new companies. BL Technology would probably be allocated to Cars and BL Systems become part of a Joint Service company.

Inter-group trading affected by the new structure would require a review of existing arms-length arrangements.

B.4 The present BL Board consists of seven directors. The composition of the new Boards remains to be determined, but each would comprise a part time Non-Executive Chairman, three or four Non-Executive Directors and a Chief Executive.

B.5 The intention is to appoint at least one of the two Chairmen from amongst the present Non-Executive Directors and to invite the remaining Non-Executive Directors to join one or other of the new Boards. One or two executives may also join each Board. Additional non-executive appointments will be necessary.

B.6 The situation with regard to individuals is as follows:

The present intention is to invite Sir Austin Bide to be Chairman of Cars.

Sir Robert Hunt is one of a number of possible candidates for the chairmanship of Commercial.

Sir Michael Edwardes has indicated his willingness to serve as a Non-Executive Director on both Boards for a period, if this is thought helpful.

The precise make-up of each Board has not yet been determined.

It is intended to offer the positions of Chief Executive Cars to Mr. Ray Horrocks and Chief Executive Commercial to Mr. David Andrews, before the new structure is announced.

B.7 The proposal deals therefore not simply with structure, but also with the issue of leadership succession to Sir Michael Edwardes at the end of 1982.

EXHIBIT C

BL's RATIONALE FOR THEIR PROPOSAL

as put forward by BL and agreed with
Sir Michael Edwardes on 19.2.82

C.1 Vulnerability: The financial and confidence effects of a crisis - or indeed a planned closure or disposal of one component - are better contained if BL is split into two companies.

C.2 Different Businesses: There are no major synergies between Cars and Commercial. They are separate businesses with distinct products, manufacturing processes, markets, customers and distributors. There is, however, important synergy within the cars and commercial vehicle businesses.

C.3 Decentralisation: The proposed structure extends the process of decentralisation and facilitates the splitting out of Land Rover from the Cars pay bargaining unit, which is highly desirable because of the different levels of profitability in each, and is an essential prelude to privatisation. It would limit the effects of the trade union practice of escalating negotiations to the highest level and of seeking the highest common factor in terms of concessions within a single business.

C.4 Dedicated Leadership: Each business would benefit from a more dedicated and focussed Board and management. The proposed structure would eliminate danger of a crisis in one part of the business diverting attention from the strategic problems in another - a problem which resulted in a failure to pick up early enough alarm signals in Trucks, during successive crises in Cars.

C.5 Manageability: The business,in its present stage of recovery,is too complex to be directed by a single Board. The high rate of change experienced in the past will continue and pressures on the top man in particular are reinforced by the high profile and visibility engendered by a single structure. In the proposed structure, four positions will replace those of the present Executive Chairman.

C.6 Image: The disappearance of BL Limited would facilitate the improvement of the image (and consequently of sales) of all its constituent businesses, particularly Land Rover, Leyland and Unipart, by reducing the burden of the "British Leyland" record, which tends to offset the more recent improvements in products, labour relations and productivity.

C.7 Collaboration: Potential partners prefer to deal with businesses which are free standing or not associated with other high risk components. No existing or likely collaborative deal stretches across both businesses. For example, neither BMW or Honda have any interest in being involved with the Truck and Bus business.

C.8 Privatisation: The split into two companies does not impede the pursuit of private sector equity involvement. Indeed private investors will be more easily attracted into the profitable parts of BL if their exposure to risks elsewhere in BL is reduced by the split.

C.9 Continuity: The proposal provides the best possible continuity and corresponds closely to the present management structure. The organisation has evolved with this objective in mind. Therefore experience gained is not dissipated; strategic perspectives and judgments are not broken; and there is a good fit between the executive and non-executive resources available.

C.10 Succession: The proposal removes the need to find a successor to Sir Michael Edwardes and reduces the risk of losing key executives.

EXHIBIT D

RATIONALE FOR PRESERVING A UNIFIED STRUCTURE

D.1 Leadership Succession: The continuing size, complexity and crisis ridden nature of the management task at BL have been brought into focus by Sir Michael Edwardes' impending departure. These demand that the future leadership response is of the highest level possible. The best way of achieving this is to maintain a single Board led by an Executive Chairman of stature, to provide strength and unity of strategic and operational direction, and not to dilute these in any way whatsoever.

The position of part time Non-Executive Chairman for the whole or for part of the company does not measure up to the leadership requirement,is ambiguous and potentially untenable.

D.2 Dedicated Leadership: All businesses benefit from dedicated executives. However, businesses in turbulence and crisis require maximum detachment and the ability of the Board to stand-back and review options. These qualities are best achieved in a 'portfolio' rather than an 'operational' structure. Such a structure minimises commitment and 'ownership' and maximises the ability to confront issues of component viability and sale.

The Board requires the leadership of a full-time Chairman to reduce the risk of being dominated by the Chief Executive.

D.3 Manageability: The problems will remain large and to address them under two structures instead of one will not per se diminish their size but may reduce the range of options for their resolution. Manageability has and will continue to be improved by pursuing decentralisation to discrete business components with maximum autonomy. In addition a wider portfolio permits the retention of high quality corporate staffs essential to the manageability of a decentralised business. Central Staffs would provide a more effective means of coordinating policies which need to be common across the business components than the suggested alternative of cross representation on the two Boards.

EXHIBIT D

(cont.)

D.4 Privatisation: Privatisation requires a structure which provides detachment, resilience and independence of leadership and is able to respond to opportunities as they arise within the widest possible range of options.

The privatisation objective requires a structure which is able to respond to specific opportunities as they arise. The narrower the portfolio, the larger the impact of privatisation of a part on the residual structure, and the less its ability to respond flexibly. The proposed split into two companies has this effect. Land Rover offers the most realistic opportunity of privatisation over the next two years and an immediate restructuring into two companies would be likely to impede this.

D.5 Vulnerability: A crisis situation, regardless of corporate structure, would require prompt action including, if necessary, temporary Government guarantees. Such action would mitigate the impact of a crisis in the operational continuity of other parts of the business. The cost, terms and structure of finance available to the total business however organised after a crisis will be determined primarily by the quantity of assets and quality of earning power of what remains rather than the number of parent companies.

The split into two components is not a condition precedent to the separation of bargaining units within Cars. Separating out into two companies carries the additional risk of the worst situation, in terms of union negotiation becoming the standard for both in the absence of unified direction and control.

D.6 Image: The most effective solution to weak image is the promotion of clear product and marque identities which is independent of corporate structure.

D.7 Decentralisation and Collaboration: These issues are independent of the choice of corporate structure.

EXHIBIT E

FUTURE LEADERSHIP CONFIGURATION

E.1 The key issues confronting the BL Board imply the following configuration of leadership after the departure of Sir Michael Edwardes.

E.2 The overall strategic issue requires above all the ability to assess realistically the condition of the business, in whole and in its parts, and ensure appropriate action by the executive. The personal skills implied are 'helicopter' ability, realism, detachment and the strength to insist.

E.3 Whatever the provenance of a new crisis it will inevitably have implications for industrial relations. The leadership requirement is to assess risk, maintain credibility and locate authority at the right level for the particular situation. The skills required are courage, personal stature and the credibility of a good track record.

E.4 The construction of a collaboration network requires the entrepreneurial ability to see the opportunity for congruence and mutual benefit between partners; the personality to get the ball rolling and the strength to outweigh the intertia of middle management. The personal skills required are realism, judgment and stamina.

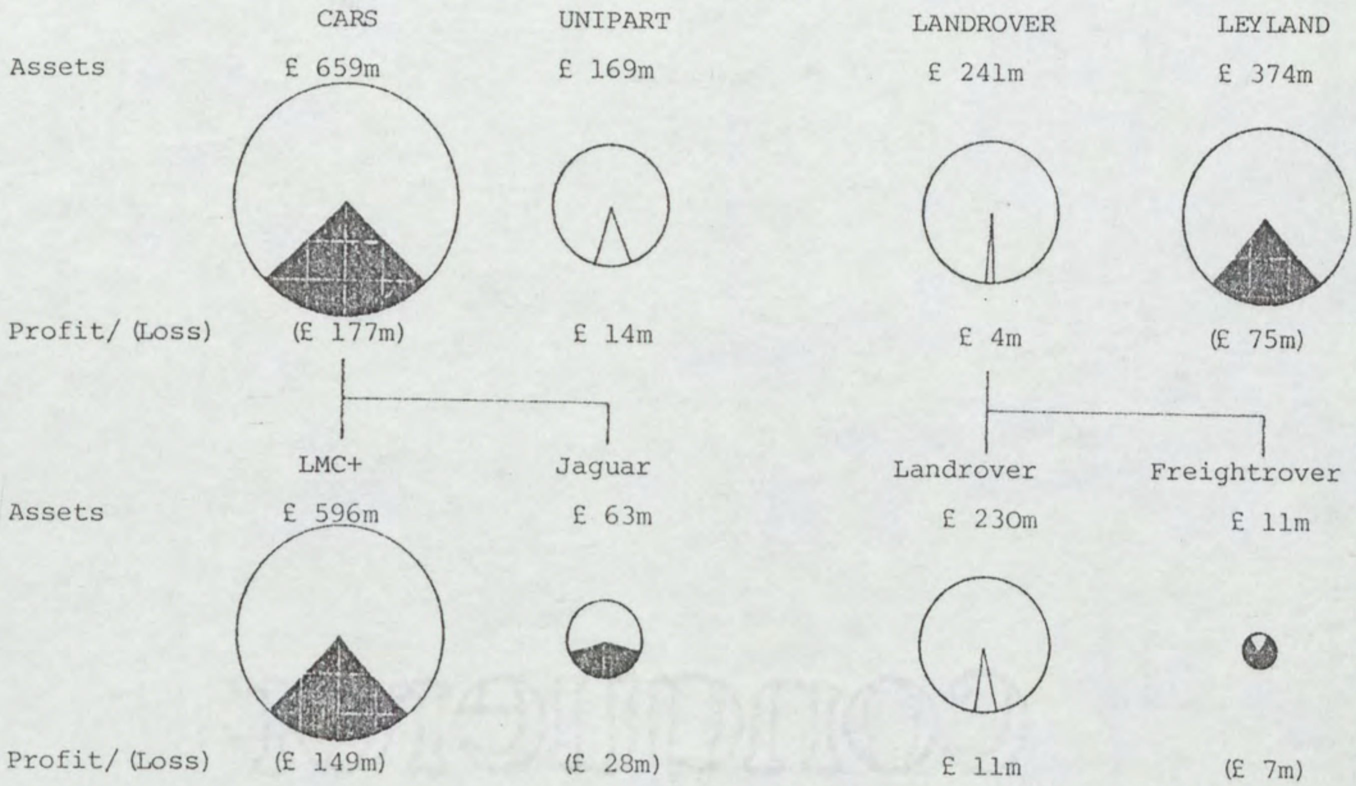
E.5 The privatisation issue requires very fine judgment on matters which go beyond commercial considerations. High public visibility and intense Government interest require sensitive handling of the Government interface.

E.6 With regard to manageability, the issues remain large and complex regardless of the particular structure which is adopted. They demand leadership of the highest stature, able to sustain management morale through recurrent crises.

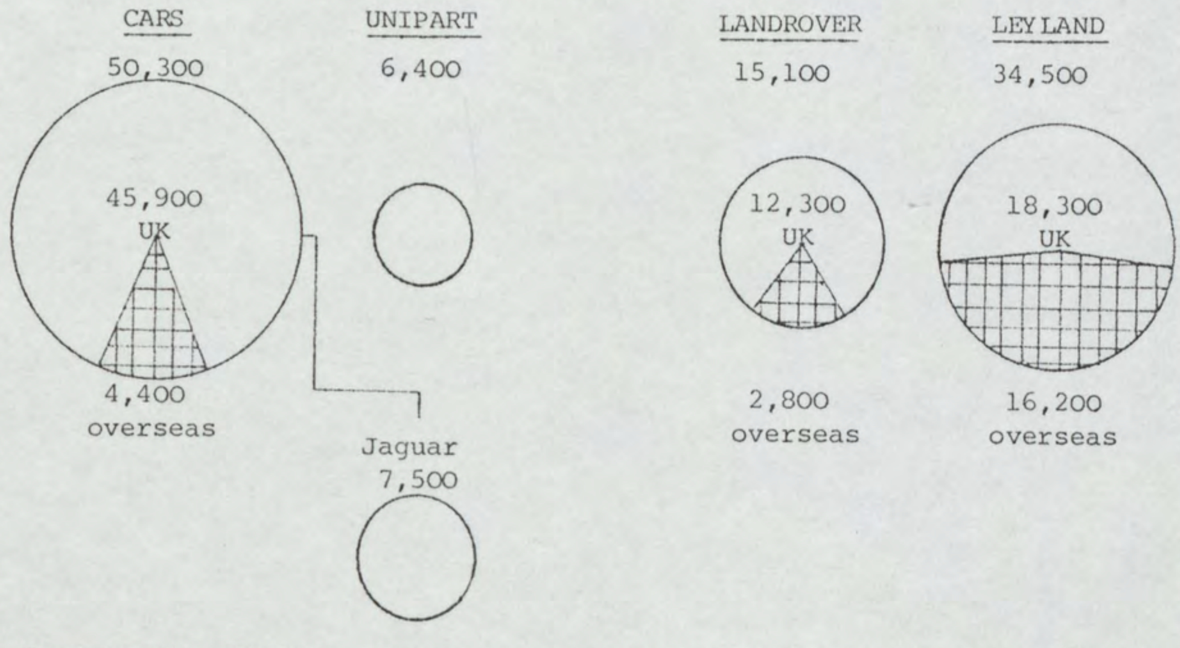
E.7 In terms of background and experience, the leadership requirement is less for a man of the industry than for experience of, structures containing comparable issues of integration and decentralisation.

EXHIBIT F

DISPOSITION & DIMENSIONS OF ASSETS PROFITS & EMPLOYMENT 1981



MANPOWER

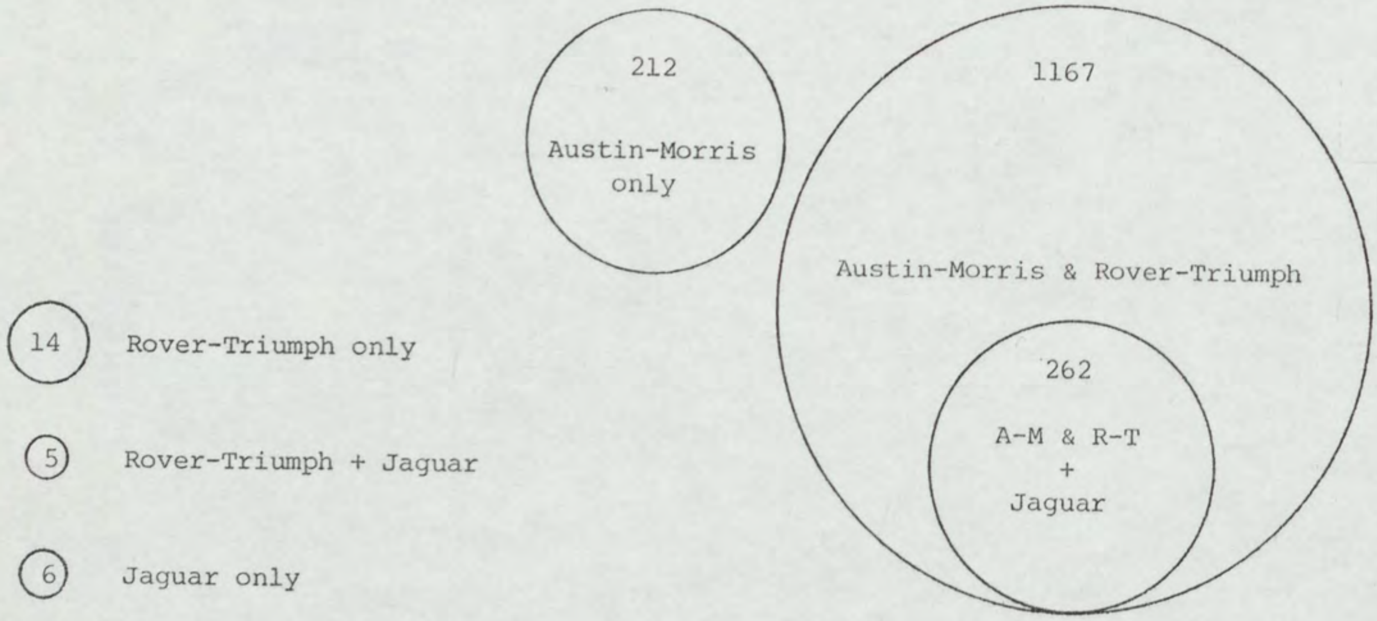


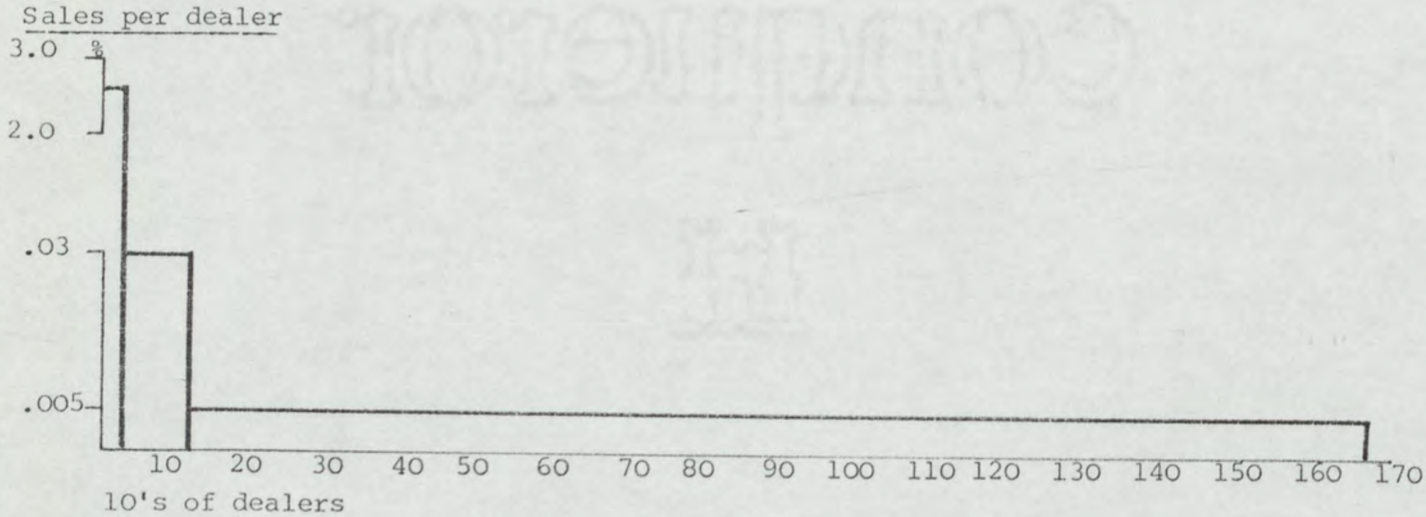
Notes

- All figures from BL Plan 1982.
- Profit/Loss taken before the payment of interest or tax.
- Assets are taken as fixed assets, less depreciation, plus working capital.
- Figures for elements of Groups are derived from ratios quoted in the Plan.
- Separate figures for trucks and buses are not included in the Plan.

EXHIBIT G

MARKETING INTERDEPENDENCIES





- Jaguar It has not been possible to quantify the effects on BL franchise holders in the event of BL ceasing to own Jaguar.Present franchise holders are suffering from low margins and benefit from the higher margins on Jaguar sales.
- Landrover Inter-relationships of UK franchises are not important since only 20% of sales are made in the UK and the large UK sales, eg Ministry of Defence, do not go through dealers. Range Rovers are generally sold in the higher margin end of car franchises.
- Freightrover 300 of the 365 Sherpa franchises are held by Austin-Morris dealers. 80 of the 150 truck dealers also hold Sherpa franchises.
- Overseas Leyland and Landrover are usually interlinked in the assembly overseas of vehicles from kits. The two major subsidiaries, South Africa and Australia, already deal in vehicles from other manufacturers. Any separation of Landrover from Leyland would require similar arms-length arrangements.

EXHIBIT H

MANUFACTURING INTER DEPENDENCIES

CARS	UNIPART	LANDROVER	LEYLAND
Supply of parts →		← Supply of parts	
Jaguar ←	←	←	Engine blocks
Side-panels & roof, 2 door →	→	Range Rover	
Dashboard assembly →	→	Landrover	
V 8 engine blocks →	→	Range Rover Landrover	
Axles →	→	Sherpa	
'O' engines →	→	Sherpa Freight	
Diesel engines →	→	Sherpa Rover	
Gearboxes →	→	Sherpa	
Rover ←	←	77mm gearbox	
Jaguar (a few) ←	←	77mm gearbox	
Rover ←	←	V 8 engine	

ARRANGEMENTS FOR COLLABORATION AND OUT-SOURCING

	CARS		LANDROVER		LEYLAND
	L M C	Jaguar	Landrover	Freightrover	
Collaboration	• Honda Acclaim		• Perkins dieselise V8		
Intended Collaboration	• Honda Executive car • Honda Marketing & distribution in Europe	• BMW new model • BMW Joint sourcing of components • Ford Marketing Franchise in Europe		• Alfa-Romeo K2 & MT 210	• ? Replacement L 11 T 11 engin • Cummins/Case Joint manufacture 98 series
Out-sourcing	• VW gearbox LC 10				• R-Royce or Cummins in lieu of L 12/TL 12 engine • International Harvester in lieu some DT 466 engines • Eaton/ZF in lieu Albion gearbox
Intended out-sourcing	• VM diesel • ? transmissions	• VM diesel • BMW diesel ?	• Chrysler automatic gearbox • ZF automatic gearbox	• VW or Salisbury rear axle MT 210	

Notes
- Long standing out-sourcing, eg Borg-Warner automatic gearboxes for cars, not included.
- Intended projects at varied stages.

EXHIBIT J

PRIVATISATION OPTIONS

J.1 Land Rover is not presently self-accounting. Its wage bargaining unit is part of Cars. There are trading interdependencies with Cars, Unipart and Leyland.

The Land Rover Plan projects strong market recovery, maintained market share, a 50% increase in revenue in the two years 1982 and 1983, improving the return on assets to 11%. On this basis a prospectus could just be contemplated 18 months from now. It would presuppose self-sufficiency as a business unit and trading interdependencies being placed on a secure commercial footing.

Land Rover could probably be sold to another Company earlier than this. A partial sale would also be attractive to potential collaborative partners. Such a move could impede subsequent disposal or flotation of the whole.

Exclusion of Freight Rover which is currently in the early stages of recovery would marginally enhance the prospects of sale or flotation.

J.2 On the Plan projections full privatisation of Leyland is very unlikely before 1984/5. Prospects for early outright sale of the whole, given the depressed state of the industry internationally, are only marginally higher.

It would be possible to sell some of its business components, such as Scammel, overseas companies and Bus in the event of an abandonment of the 1982 Plan and closure of the main UK Truck manufacturing activity.

J.3 Jaguar is extremely fragile and its performance precludes it becoming a free standing business through flotation for the foreseeable future. Its volume throughput is very small by the standards of the industry, and new models require substantial investment. It is planned to be cash consuming until 1984.

Despite its vulnerability, the marque has high continuing prestige and the business might be saleable to another cars company either in one move or through progressive collaboration and equity investment, for example with BMW.

EXHIBIT J

(cont.)

J.4 Unipart is a service business and integral to Cars and could only become a free standing business in the event of liquidation of cars when it would have residual value as a declining business.

Partial sale through flotation or placing with investors would be possible subject to its commercial viability and trading arrangements satisfying independent scrutiny. This would introduce inflexibility in spare parts pricing and thereby reduce the attractiveness of the Cars business to a potential purchaser.

J.5 The cash flow of Volume Cars including Unipart remains strongly negative for the next two years precluding any possibility of sale by flotation. Privatisation could only arise as part of a collaborative venture, which created a high degree of interdependency with another group aimed at securing viability through economies of scale. The relationship with Honda could develop in this way.

EXHIBIT J

(cont.)

PRIVATISATION OPTIONS

The table below sets out the principal privatisation possibilities, assuming achievement of the 1982 Plan.

	Net Assets (1) 31.12.81	Planned Net Cash Flow (2) 1982 and 1983	Full Sale within 2 years (3)		Partial Sale within 2 years (4)	
			By Public Flotation	To a Third Party	To financial investors	To collaborative partners
	£m	£m				
Land Rover	241	5	Medium	High	Medium	High
Leyland	374	(61)	Nil	Low	Low	Medium
Jaguar	63	(51)	Nil	Low	Nil	High
Unipart	169	26	n.a.	n.a.	High	Low
Volume Cars and Unipart	828	(177)	Nil	Nil	Nil	Medium
BL	1518	(591)	Nil	Nil	Nil	Low

Notes:

(1) Net Assets at 31.12.81 are taken from the 1982 Plan and are defined as fixed assets less depreciation plus working capital before deducting borrowings.

(2) Net Cash Flow for the two years 1982 and 1983 is defined as profits before interest and tax, plus depreciation, less capital expenditure, and less working capital increases.

(3) Full sale is defined as a disposal sufficient to ensure that total management and financial responsibility, subject to implementation of transitional commitments in the terms of sale, passes to the new owner.

(4) Partial sale is defined as a disposal under which the seller retains effective management and financial responsibility. In the case of public flotation the seller's equity might be reduced to under 50% but would remain in excess of 30%.

EXHIBIT K

TERMS OF REFERENCE FOR THE CONSULTANTS

1. To consider and make recommendations in the light of the draft Government objectives for the group (copy attached), on whether any changes are desirable, in connection with the departure of Sir Michael Edwardes at the end of 1982 in the organisation for management of the activities within the BL group, and if so what form of organisation might best meet these objectives.

2. The investigation will evaluate the proposals made by Sir Michael Edwardes and the Board and recommend alternatives where appropriate; taking into account (i) the Government's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the businesses to the private sector; (ii) the Board's responsibilities (a) to make commercial judgments and (b) to measure and control the operating efficiency of the company.

The study should cover the possibility of retaining a single holding company with two or more major operations, or a number of smaller operations, for which management responsibility is fully delegated.

3. This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government departments without prior consultation with the Chairman.

EXHIBIT K

(cont.)

DRAFT OBJECTIVES

The objectives for BL's business are:

1. To plan and implement the strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

2. Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

3. To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed for the financial years 1981/2 and 1982/3 and announced by the Government, so that the business can be made to operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

EXHIBIT L

SCHEDULE OF MEETINGS

January

27th J.R. Ibbs, Head, Central Policy Review Staff
G. Mackenzie, Central Policy Review Staff

28th P. Jenkin, Secretary of State for Industry
N. Lamont, Minister of State, Department of Industry
G. Manzie, Deputy Secretary, Department of Industry
J.R. Ibbs
G. Mackenzie

Sir Michael Edwardes, Chairman, BL
B.T. Wilson, Director of Organisation and Personnel Planning, BL
R. Holmes, Personal Assistant to the Chairman, BL
J.R. Ibbs
G. Mackenzie

29th B. Mountfield, Under Secretary, Department of Industry
J. Bowder, Assistant Secretary, Department of Industry

February

1st G. Manzie

2nd F.L. Fitzpatrick, Director of Finance, BL

N.J. Carver, Director of Business Strategy, BL

3rd A.R.W. Large, Company Secretary, BL

B.T. Wilson, BL

4th J.W. McKay, Director of Communications, BL

D.R.G. Andrews, Executive Director, Leyland & Land Rover Groups, BL

5th G. Mackenzie
C. Beauman, Central Policy Review Staff

J.R. Ibbs

8th Sir Peter Carey, Permanent Secretary, Department of Industry

R. Horrocks, Executive Director, Cars & Unipart, BL

9th W. Ryrie, Second Permanent Secretary, The Treasury
A. Lovell, Under Secretary, The Treasury

10th Group Meeting with BL Non-Executive Directors

Sir Austin Bide, Non-Executive Director, BL

11th	J.R. Mayhew-Sanders, Non-Executive Director, BL
	Sir Michael Edwardes
	Sir Robert Clark, Non-Executive Director, BL
12th	J.R. Ibbs
18th	Sir Robert Hunt, Non-Executive Director, BL
19th	Sir Michael Edwardes
22nd	R.E.B. Lloyd, Deputy Chairman, Hill Samuel J.A. Leek, Director, Hill Samuel
23rd	R. Mountfield J. Bowder
	Sir Peter Carey
24th	J.R. Ibbs
	Sir Peter Carey

Mr. R. Holmes, Personal Assistant to the Chairman of BL, was present at all BL meetings including those with the Non-Executive Directors and was also at the meeting with the Hill Samuel Directors.

In accordance with the agreed terms of reference we asked Sir Michael Edwardes if we could see Mr. I. MacGregor, Mr. A. Frost and Mr. P. Lowry, all former Directors of BL, and he preferred that we did not.

Prime Minister.

Ref. A07741

PRIME MINISTER

J.S.T. Collings
Duty Clerk
9/3/82.

British Leyland

Sir Michael Edwardes called on me yesterday morning at his request, to underline certain issues arising on the report of the Corporate Consulting Group on the future structure of British Leyland. Sir Michael Edwardes was accompanied by his Deputy Chairman, Sir Austin Bide.

2. It was agreed to seek independent advice from consultants on the British Leyland Board's proposal to split British Leyland into two separate holding companies each with a non-executive Chairman and a Chief Executive. Corporate Consulting Group reported at the end of February, and their report has now been sent to the Secretary of State for Industry. Their main conclusion is that the British Leyland Board's proposal to split British Leyland into two separate companies, composed of the Leyland Truck division and Land Rover in one group and the Cars division, Jaguar and Unipart in the other, could be an impediment to early privatisation, particularly of Land Rover. It would also not provide the quality of top management and intensity of attention to the companies' business that is likely to be needed. The report therefore recommends that the unified structure, with Sir Michael Edwardes continuing as Chairman on a part-time basis, should be retained for, say, a further two year period during which time the company would be prepared for the privatisation of Land Rover and possible subsequent division into separate corporate entities.

3. Sir Michael Edwardes made it plain that he and his Board are very unhappy about the consultants' report. They do not think that the report pays sufficient attention to the importance of splitting the company in the field of industrial relations. They think that the progress which has so far been made in dealing with militants is unlikely to be maintained if the strategy of confrontation is retained. At present, if there is industrial relations trouble in one division of British Leyland (eg the Cars division) it tends to extend to other divisions. This would be less likely to happen if the divisions were made into separate groups of companies as the British Leyland Board propose. The split would also have the

advantage of making it impossible for militants to concentrate their fire on a single Chairman and managing Board. The individual components of each group would be sufficiently separate and the interests of their respective work forces sufficiently distinct to make the task of militants greater and the impact of their activities less than hitherto.

4. Sir Michael Edwardes thought that the consultants' report had failed to address this industrial relations aspect of the British Leyland Board's proposal and had concentrated on the limited question of the privatisation of Land Rover. On privatisation, Sir Michael said that his Board took the view that it would be easier to privatise Land Rover if it was separated (with Leyland Trucks) from British Leyland Cars than if they continued under one management. If the company composed of the Trucks division and Land Rover were to prove successful, a portion of it could be privatised. If on the other hand the Trucks division failed, Land Rover could still be privatised.

Why?

5. Sir Michael Edwardes is to see the Secretary of State for Industry about this today. I told him that his next step should be to try to convince Mr Jenkin of the merits of the Board's approach as against the recommendations of the consultants. I undertook to draw Sir Michael's reservations to your attention, and I noted without disagreeing that he was likely to want in the last resort to come and see you if the Department of Industry seemed minded to accept the consultants' report; but I hoped that it might not come to that.

6. Sir Michael Edwardes warned me that he feared that there might be reports that he and the Board were ready to resign over this issue. He said that this was not the case and that any media claims to this effect should be discounted. The Board did not want to make this into an issue of confrontation with the Government and believed that they were still on course this year for achieving the targets set out in their corporate plan. But Sir Michael offered no assurances beyond 1982. Indeed, he said that he and the Board did not think that they would be able to achieve the corporate plan targets in 1983 and 1984 if they were unable to go ahead with their plans to split the company in two. If they were prevented from making the split, they would act responsibly; but they would in those circumstances have to consider whether they should withdraw the corporate plan for 1983 and later years. It was also clear from what he said that senior members of the present

British Leyland management believe that it will be easier for them to manage the enterprise if it is split as the Board now propose into two groups, and that some of them would question whether they had any future with British Leyland if the Board were not able to go ahead with their plans.

7. I took it from this that Sir Michael Edwardes was saying that, if the Government were minded to reject the Board's plans and adopt the consultants' recommendations, the Board would not resign but thought that a single concern would be unmanageable and would not try very hard to make it work. I presume that Sir Austin Bide's largely silent presence was intended to make it clear to me that Sir Michael Edwardes had his Board behind him.

8. I am not copying this minute to the Secretary of State for Industry, and Sir Michael Edwardes will not tell him that the conversation has taken place. When, however, the Secretary of State for Industry consults you and his colleagues on the matter, this minute may suggest a number of questions that should be asked.

RA

ROBERT ARMSTRONG

9 March 1982

Prime Minister

Now overtaken by events – but you may like to glance at the public expenditure costs/savings of closure at Flag A.

MCS 19/2

(2)

19 February 1982

MR SCHOLAR ✓

cc Mr Hoskyns

BL: LEYLAND TRUCKS CLOSURE

1. I understand from BL that the strike has now collapsed at Bathgate as well as Leyland, Lancashire. They are expecting a return to normal working on Monday.

2. The revised estimates of the cost of closure were rather lower than those made when the last Corporate Plan was examined. A range of figures has been included for redundancy costs because BL would have had a good deal of discretion about redundancy payments to those dismissed during the strike.

3. The table at paragraph 19 shows that closure would probably have meant a net saving in public expenditure terms. (I strongly suspect this is understated, because the comparison is being made with a fairly optimistic picture for 1984/5.) However, the closure would have meant 21,000 lost jobs and, due to the loss of revenue to the Exchequer, a net addition to the PSBR.

4. It is obviously too early to expect an estimate of the adverse impact on Leyland Trucks chances - which were already very poor before the dispute.

AD

ANDREW DUGUID

c/c AD

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

17 February 1982

M. Scholar, Esq.,
Private Secretary,
10, Downing Street

Dear Michael,

BL: LEYLAND TRUCKS CLOSURE

In your letter of 8 February to Jonathan Spencer, you said that the Prime Minister had asked whether the estimates of the effects of closure of Leyland Vehicles Limited (LVL) in Annex C of the official report circulated in December 1981 represented an up-to-date assessment.

Jonathan Spencer's reply of 10 February noted that we were taking another look at these estimates, and that you would be hearing from us shortly.

.... I attach a report up-dating the earlier work on closure costs. It was prepared in consultation with the Departments of Industry and Employment, and copies have already been sent at official level to those Departments, the CPRS and the No.10 Policy Unit.

I am sending copies of this letter to recipients of yours.

Yours ever
Peter

P.S. JENKINS

LEYLAND VEHICLES: EFFECTS OF CLOSURE
Note by Treasury Officials

This note is a quick update of the earlier work on the cost of closure of (most of) Leyland Vehicles Ltd (LVL); the earlier work was attached as Annex C to the report by the official group on BL's 1982 Corporate Plan. The numbers presented are orders of magnitude only.

Employment effects at LVL

2. Leyland Vehicles Limited includes virtually all the UK interests of the Leyland Group. It is split into three divisions: Trucks, Buses and Parts. Table 1 attached shows the structure of the Leyland Group in more detail, and in particular which plants are affected by the strike. In summary, the position is:

(i) At Leyland and Chorley in Lancashire almost all the workforce is on strike. As well as about 6,600 Trucks employees this includes about 2½ thousand employees of the Bus and Parts divisions. Some 2 thousand jobs are due to go at these plants under the Corporate Plan.

(ii) At Bathgate all the 3½ thousand employees are on strike; they are all in the trucks division. This includes the 850 workers at the tractor plant, even though they have accepted BL's redundancy terms for when the plant closes. A further 400 redundancies at other parts of Bathgate are due under the Corporate Plan.

(iii) None of the remaining employees at the other Trucks or Buses plants are on strike. No major redundancies were planned at these plants, except at Guy Motors in Wolverhampton where the 700 workforce has accepted redundancy terms for the closure of the plant.

3. Our assumption is that if the strike is not settled, BL will close

(i) All the Truck, Bus and Parts business at Leyland and Chorly

(ii) The Trucks axle plant at Albion in Glasgow;

(iii) All the Trucks business at Bathgate;

(iv) Various service depots for trucks.

In addition, the planed closure of Guy Motors will go ahead. What will be left of LVL will be

(i) The Scammell operations making specialist heavy vehicles in Watford;

(ii) The Bus operations held jointly with the National Bus Company (at Workington, Lowestoft, Bristol and Leeds)

(iii) The DAB Bus subsidiary in Denmark.

(iv) The Parts operations not at Chorley.

It is possible that some people - perhaps up to 500 - might need to be taken on for the Parts operation to help service the existing parc of LVL vehicles: no allowance has been made for this in the calculations.

4. The net effect of this will be a loss of 12,000 jobs over and above the 4,000 already assumed in the Corporate Plan. This is 2,500 more than was assumed in the earlier work on the closure of Leyland Trucks alone: this is accounted for by the 2,500 employees of Leyland Bus and Leyland Parts who are on strike and are assumed to be disimssed. Details of the locations of the jobs assumed lost are given in Tables 2 and 3.

Employment in supplier companies

5. We have used the same stylised assumptions about proportionate job losses in supplier firms as were used in the earlier work on the Corporate Plan. On that basis the gross job losses in supplier firms is estimated to be 18,500. These would be partially offset by employment gains in rival UK assemblers and their suppliers. On the same basis as before these gains would amount to 9,500 jobs. The net job losses outside BL are therefore estimated at 9,000.

Timing

6. For convenience we have based the calculations on the assumption that all costs fall after 1 April 1982. The likely date for closure is a month earlier than that but given lags in payments it probably would be only a very small portion of the costs which would fall in the financial year 1981-82. We have assumed that job losses at BL occur immediately, but that job losses at suppliers are spread over 1982-83.

Re-absorption

7. These job losses will lead to a temporary increase in unemployment. There are a range of views about how quickly the economy will adjust and re-absorb the unemployed resources. We have followed the earlier assumption that re-absorption would in present circumstances be fairly slow: these assumptions are no net re-absorption in the first two years, 25% in the third year and 50% in the fourth year. The resulting net increases in unemployment are therefore

At 31 March	1983	1984	1985	1986
Number	21,000	21,000	16,000	11,000

Redundancy Payments

8. There is considerable uncertainty about redundancy payments to be made to workers at BL. At one extreme, all the 12,000 workers now on strike might continue on strike and might be dismissed and receive no redundancy payments (except for those previously employed at Bathgate Tractors and who have agreed redundancy terms). At the other extreme, BL might make normal redundancy payments even to these remaining on strike as a means of securing a relatively peaceful climate for closing of the business and disposing of the assets. There are a range of possibilities in between: if an ultimatum is issued it is likely that at least some of the strikers would return to work and would then receive redundancy payments; and BL could choose to give full redundancy payments to non-strikers but, say, statutory minimum redundancy payments to strikers. The difference to BL's cashflow of the two extreme assumptions is £60 million. The table of total costs

below gives the range of possible outcomes rather than picking arbitrarily on one number.

9. The State Redundancy Fund would pay 41% of the statutory minimum payments for workers made redundant at BL. Whether the State Redundancy Fund would make these payments if workers at BL were dismissed while on strike but nevertheless given "ex gratia" redundancy payments is not clear. Again, a range of possibilities is included in the table of costs below.

10. There would also be a cost to the State Redundancy Fund from job losses in supplier firms. We have as before assumed that 60% of workers made redundant would be eligible for redundancy pay. The total cost would therefore be about £5 million.

Social Security benefits, lost tax and NI receipts

11. The take-up of social security benefits and the loss of tax and National Insurance contributions has been calculated from the assumptions about net job losses. The costs do in principle depend on whether the BL workers are dismissed while on strike or are made redundant. But in practice the difference is very small. If BL workers are dismissed on strike they are not eligible for unemployment pay or supplementary benefit in their own right but their dependants are eligible for supplementary benefit after the £12 deduction for assumed union financial support. If BL workers are made redundant they will receive unemployment pay but they and their dependants will not be eligible for supplementary benefit because of the capital value of their redundancy payments.

Effects on BL's Cashflow

12. BL have supplied us with provisional estimates of the effects of the closures on the Leyland Group's cash flow. These include the cost to BL of any redundancy payments made and the net effects of repaying trade creditors, collecting receivables, selling stocks and foregoing losses (or losing profits). In the earlier work we identified all these factors separately but we have this time for convenience used BL's aggregate estimates. These figures do not include any allowance for repaying bank debt and other borrowings;

ese are discussed separately below.

13. There is in addition a central contingency in the BL Corporate Plan for "non-achievement" of the Leyland Group Plan. It seems right to credit this contingency in the calculation of the costs of closure since it would no longer be needed.

14. These figures give the net effect on BL's cash flow. They are included in the Table below as public expenditure costs or savings. This is very much a simplifying assumption. There cannot be any firm presumption that a reduction in BL's cash out-flow would lead to a reduction in Government funding, nor that any increased cash outflow could not be accommodated within existing Government funding.

Disposal proceeds

15. With much of the Bus and Parts businesses also closing there would be very little left of the Leyland Group to dispose of. The main companies would be Leyland South Africa, Ashok Leyland and the Ennore Foundries in India, and the Scammell specialist vehicle business in Watford. The collective disposal proceeds from these companies would be small - the most profitable are the Indian operations but difficulties of repatriating dividends would hold the value down. No allowance has been made for proceeds from disposals in the table below.

Loan repayments

16. A major element in earlier analyses of the costs of closure has been the need for the Government to refinance existing BL debts. This, for example, accounted for half the £200 million identified first-year PSBR costs of not funding the Leyland Trucks plan.

17. In the circumstances which BL face now, they believe they may be able to avoid any substantial repayments by renegotiating the terms of the loans and, if necessary, relying on Government guarantees. A £5 million short-term loan to LVL would, however, almost certainly

A

have to be repaid. The other loans most at risk are the £65 million loan stocks and the £30 million related medium-term loans. These include restrictive covenants which make them immediately repayable if a "guaranteeing subsidiary" closes a part of its business. Leyland Vehicles is a guaranteeing subsidiary but BL are negotiating with the Trustees to change this.

18. The figures given in the table below do not include any provision for repaying the loan stocks or other debt. The risk that another £100 million might be needed in 1982-83 must be borne in mind.

Total cost

19. The table below shows the total public expenditure and PSBR costs of closure. A plus sign indicates a transaction adding to public expenditure and the PSBR (eg a worsening in BL's cash flow).

£ million

	82-83	83-84	84-85
Effect on Leyland Group cashflow	-10 to + 50	-50	+30
Elimination of BL central contingency	-50	-40	-50
Repayment of BL debt (i)	+5	0	0
Payments from State Redundancy Fund	+5 to + 15	0	0
Social security benefits	+25	+40	+30
Total public expenditure	-25 to + 45	-50	+10
Lost tax and NI revenue	+45	+60	+50
Total PSBR effect	+20 to + 90	+10	+60

Note (i) see paragraph 17.

10. These figures are lower than those presented in the earlier work. The main difference is that no provision has been made this time for repayment of the loan stocks, and the elimination of BL's centrally-held contingency has now been included. Otherwise, the figures are similar, allowing for the fact that the lower figure given above for 1982-83 assumes that all strikers are dismissed without any redundancy pay.

IA2 Division
HM Treasury
12 February 1982

LEYLAND GROUP STRUCTURE

- BL
  - Cars Group
  - Unipart Group
  - Leyland Group
    - Leyland Vehicles Ltd
      - Leyland Trucks
      - Leyland Bus
      - Leyland Parts
    - Leyland South Africa
    - Ashok Leyland
    - Other subsidiaries
  - Land Rover Group

Leyland Vehicles Ltd Plants

Plant	Division	Activities/Plans/Comments
Leyland	Trucks	To become sole Trucks asembly plant; present work on axles to transfer to Albion; present works on engines to cease. All on strike.
Bathgate	"	To become sole Trucks engine plant; present work on assembly to transfer to Leyland; axle work to Albion; tractors to close. All on strike.
Albion	"	To become sole Trucks axle plant; present work on gear boxes to cease. Not on strike.
Guy Motors	"	To close. Assembly work to go to Leyland; axle work to cease. Not on strike.
Scammel	"	Specialist trucks etc. To continue as at present. Not on strike.
Leyland (Comet & BX factories)	Bus	Axle and bus-chassis and coach construction. Was part of Leyland Trucks until 1 January 1982. Is on strike and is included in "Leyland" figures in Tables 2 and 3.
Leyland National (Workington); Bristol Commerical Vehicles; Eastern Coach Works (Lowstoft); CH Roe (Leeds)	Bus	The assembly and manufacturing plants of BM (H) Limited, a company jointly owned by LVL and National Bus Company. Not on strike.
DAB	Bus	Danish chassis and body-building company.
Chorley (Lancashire)	Parts	Almost all parts business now concentrated here. Is on strike and is included under "Leyland" in Tables 2 and 3.

JOB LOSSES FROM CLOSURES

('000)

TABLE 2

Plant	Number employed at end 81	Number to be employed at end 82 under Corporate Plan	Number employed if closure	Jobs lost as a result of closure
	(a)	(b)	(c)	(d) = (b) - (c)
Leyland (i)	9.5	7.6	0.2 (ii)	7.4
Guy Motors (Wolverhampton)	0.7	0	0	0
Albion (Glasgow)	1.9	1.7	0	1.7
Bathgate	3.6	2.4	0	2.4
Scammell (Watford)	0.8	0	0.8	0
Service depots	0.5	0.5	0	0.5
TOTAL	17.0	13.0	1.0	12.0

Notes

(i) Includes employees and staff of both Leyland Trucks and Leyland Buses at Leyland and employees of Leyland Parts at Chorley

(ii) Some staff would be retained to oversee Leyland Bus production elsewhere in the UK. Some employees might need to be recruited for continuing parts operations, but no account of this taken here.

TABLE 3

JOB LOSSES FROM CLOSURES

('000)

Plant	Jobs lost if closure: Employees who would be dismissed while on strike	Jobs lost if closure: Employees not on strike who would be made redundant	Memo item: Planned redundancies under 1982 Corporate Plan
Leyland	8.4	1.1	1.9
Guy Motors	0	0.7	0.7
Albion	0	1.7	0.2
Bathgate	3.6	0	1.2
Scammell	0	0	0
Depots	0	0.5	0
TOTAL	12.0	4.0	4.0

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JU40

Prime Minister
Further information, in answer to your questions, still awaited.
MCS 16/2

(2)

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

16 February 1982

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

AD

Dear Geoffrey,

BL: STRIKE AT LEYLAND AND BATHGATE

Thank you for your letter of 5 February agreeing to my telling Michael Edwardes that the contingency arrangements for the possible issue of guarantees in respect of BL's loans should be activated. This I have duly done.

2 I mentioned at Cabinet on 11 February that the BL Chairman was likely to write to me again shortly conveying the decisions taken by his Board the previous day about the future of Leyland Trucks. I attach a further letter from Michael Edwardes, dated 11 February, giving me formal notice of the Board's intention to put in hand measures to cease truck production at the Leyland and Bathgate sites in the near future, if the strike continues beyond 25 February. BL's meeting with national union officials, planned for Monday 15 February, will proceed. The company have said publicly that they will be prepared at that meeting to discuss alternatives to the 1982 Plan which have been put forward by union representatives. However, they do not consider these alternatives (which provide for the expansion of Leyland Vehicles' activities) to be acceptable. They are therefore preparing to mount a compaign of persuasion leading up the mass meetings of strikers planned for Thursday 18 February. If these meetings vote for the strike to continue, BL intend to issue letters advising employees that they will be deemed to have dismissed themselves if they do not return to work by a given date (probably 5 - 7 days later).

3 BL would try to keep open as much as possible of the related operations, including Scammell at Watford, but Leyland Bus employees at the Leyland site, now on strike, would be dismissed and not re-employed. There might be some future for Albion in Glasgow on a reduced scale to support Scammell. Guy Motors (Wolverhampton) will close as envisaged in the 1982 Plan.

4 Our officials are in touch about a list which has been

received from BL of the loans and facilities of the BL Group that might need to be guaranteed if the closure of Leyland Trucks seemed imminent. The Treasury have been provided with up-to-date information about the closure costs that would fall on the company. BL have promised as soon as possible a list of the major component suppliers to Leyland Trucks and the extent of their dependence on this business, so that the approximate number of consequential job losses can be assessed.

5 I am copying this letter and enclosure to the Prime Minister, the Secretaries of State for Trade, Employment and Scotland and to Sir Robert Armstrong and Robin Ibbs.

Yours ever

Patrick

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

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

11 Feb 1982

Dear Secretary of State,

STRIKE AT LEYLAND AND BATHGATE

The 1982 Corporate Plan for Leyland Trucks was finalised after no less than a year's debate of the options and was approved by the BL Board, in the light of this debate, as the only viable alternative to closure.

The decision to proceed with the Plan, as against closure, was by no means an easy one, given the heavy cash outflow forecast for Leyland Trucks in the short term (£89m in 1982) and the major task which it imposed on management to implement a radical programme of restructuring and at the same time introduce new models on schedule and maintain customer confidence. An extremely rapid rate of performance improvement is required in order to stem the unacceptable level of cash outflow.

The Leyland Trucks Plan is not therefore robust. It is completely dependent on management's ability to carry through the restructuring programme on a tight timescale without major disruption.

/...

The Rt Hon Patrick Jenkin, MP 11 Feb 1982

The BL Board has considered the implications of the present strike at Leyland and Bathgate, which has now lasted almost three weeks. Our conclusion is that, in the absence of full acceptance of the Plan by the workforce and a return to normal working in the very near future, the Plan will no longer be achievable.

This judgement is based not only on the immediate financial impact of the strike but on the apparent depth of resistance to the restructuring programme and its adverse effect on customer confidence. If employees and their representatives in Leyland Trucks cannot now (nearly three months after the announcement of the Plan) be persuaded to accept the need for painful measures, then clearly management will have no chance of carrying through the overall restructuring programme at the required speed.

I am therefore writing to give you formal notice of the Board's intention to put in hand measures to cease truck manufacturing operations at the Leyland and Bathgate sites in the near future if the strike continues beyond 25 February. While we would try to keep open as much as possible of the related operations, such as Leyland Bus and Scammell, you should know that the direct loss of jobs could well exceed 14,000, without taking account of further consequential job losses in suppliers and in the local communities concerned.

Yours sincerely
Michael Edwardes

10 DOWNING STREET

Michael

No need to show this to the P.M. yet, unless you particularly want to.

The figures are provisional and the "thin" letter did say that there would be a further report.

[signature]

15/2.

15 February 1982

MR SCHOLAR

BL: LEYLAND TRUCKS CLOSURE

1. The Treasury has provided some provisional estimates of the cost of closure. The estimates are rather lower than those made when the last Corporate Plan was examined. A range of figures has been included for redundancy costs because BL will have a good deal of discretion as to whether redundancy payments are made to those dismissed during the strike.

2. The table below summarises the public expenditure and PSBR costs of closure over the next 3 years (assuming that costs start to fall from April onwards). A plus sign indicates a transaction adding to public expenditure and the PSBR (eg a worsening in BL's cash flow). As you will see, the result might be a saving in public expenditure terms, but there would be some addition to the PSBR.

£ Million

	82-83	83-84	84-85
Effect on Leyland Group cashflow	-10 to +50	-50	+30
Elimination of BL central contingency	-50	-40	-50
Repayment of BL debt	+5	0	0
Payments from State Redundancy Fund	+5 to +15	0	0
Social security benefits	+25	+40	+30
Total public expenditure	-25 to +45	-50	+10
Lost tax and NI revenue	+45	+60	+50
Total PSBR effect	+20 to +90	+10	+60

Employment effects

3 The net effects of most likely closures would be a loss of 12,000 jobs over and above the 4,000 already assumed in the Corporate Plan. This would lead to some losses among supplier firms, offset by some gains in rival UK companies. The net job losses outside BL are estimated at 9,000. Treasury economists assume that 50% of the total of 21,000 unemployed would be reabsorbed by 1986.

AD

ANDREW DUGUID

JU28 MAP done MAP 15/2 CONFIDENTIAL

Pl hlk A. D about this - he is out until 1145

cc AD

(2)

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

10 February 1982

Very thin - almost invisible. We shall need more than this MG.

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

Prime Minister

This is very thin. The Policy Unit will let you have comments when the Treasury report at X is with us; early next week, I am told. MCS 12/2

Dear Michael

BL: LEYLAND TRUCKS CLOSURE

Thank you for your letter of 8 February mentioning some information which the Prime Minister would like to have about the benchmarks for Leyland Trucks and the costs of closing the business.

2 BL staff have provided officials of this Department with a list of headings against which the performance of Leyland Trucks will be measured this year. The list (which has been drawn up since the Corporate Plan was approved) includes sales, quality, material cost, manpower, plant closures, value added and profitability by model; targets and the timetable for their achievement will be set and provided to the Department as soon as possible. Progress against these targets for each of these elements will be reported to the BL Board and the Department on a monthly basis for monitoring purposes. The first report, covering January and February, is likely to be received with the normal monitoring report at the end of March.

3 The Treasury are looking again at the estimates given in the report of the official group on BL last December of the cost of closing Leyland Trucks. I expect you will be hearing shortly from John Kerr about this. According to BL, the strike has so far cost the Leyland Group about £4 million. They are confident that the cost of keeping the business going, on the assumption that the strike can be satisfactorily brought to an end, will be in line with the forecasts in the 1982 Plan.

4 The latest indications from BL are that the company would not proceed with warnings of dismissal, and the subsequent closure of Leyland Trucks if these were not heeded, quite as quickly as indicated in Sir Michael Edwardes' letter of 29 January. My

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Secretary of State is expecting to hear again from Sir Michael later this week, and will keep the Prime Minister and other colleagues informed.

5 I am copying this letter to the recipients of yours and to Muir Russell at the Scottish Office.

Yours ever

Jonathan

J P SPENCER
Private Secretary

10 FEB 1982

CONFIDENTIAL

Ins P9 2nl JR

CC HMT
D/M
CPRS
CO

10 DOWNING STREET

From the Private Secretary

8 February 1982

BL: LEYLAND TRUCKS CLOSURE

The Prime Minister has seen your Secretary of State's letter of 3 February to the Chancellor proposing that contingency arrangements should be activated for the issue of guarantees in the event that BL have to proceed within the next two weeks with dismissals and the closure of Leyland Trucks. She agrees that these precautions should be taken.

Your Secretary of State's minute of 11 December 1981, covering a report by the official group on BL, recommended continued support for BL. The recommendation contained in the official report on the Leyland Group plan (paragraph 75(i)) was that the Leyland Group plan should be approved on the basis that:

> "The benchmarks against which the plan says the progress of Leyland Trucks will be measured, and on the achievement of which decisions will be made on continuing, modifying or abandoning the plan, should be declared to the Government; and progress against them should be included in the monthly monitoring arrangements for BL as a whole."

The Prime Minister would like to know whether these benchmarks have been declared to the Government.

Annex C of the official report provided estimates of the effects of closure of Leyland Trucks. The Prime Minister would like to know whether the estimates contained in paragraph 15 of that note represent an up-to-date assessment. She understands that the redundancy costs (which averaged £5,850 per individual) would be substantially less if closure took place during a strike. She would also like to know the cost of keeping the business going on the assumption that the strike can be satisfactorily brought to an end.

I should be grateful if you could supply this information by close of play on Tuesday 9 February.

/ I am copying

I am copying this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

Ind Pol BL

(2)

Prime Minister
MCS 8/2
CC AD

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

5 February 1982

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

MT

Dear Patrick

BL: STRIKE AT LEYLAND AND BATHGATE

Thank you for your letter of 3 February. I am content for you to tell Michael Edwardes that the contingency arrangements should be activated. I believe my officials are in touch with yours. Events this week have not been encouraging for the future of Leyland Vehicles.

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

Geoffrey

GEOFFREY HOWE

-8 FEB 1982

JU18

MAP - Consistent, I think, with what you have already discovered & passed on to Ian Gow
MCS 8/2

MAP.

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

5 February 1982

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

P.A.

Dear Michael

Following the exchanges at Question Time yesterday between the Prime Minister, Mr Mikardo and Mr Skinner about Sir Michael Edwardes' evidence to the Select Committee on Industry and Trade, I thought you might find it helpful if I confirmed - and expanded on - the advice I gave you yesterday over the telephone.

2 The hearing at which the Select Committee on Industry and Trade took evidence from Sir Michael Edwardes and the BL staff was held in public, and an official from this Department was present. The evidence was fairly fully and (in the Department's view) accurately reported in the press.

3 The specific question you asked me was whether Sir Michael's evidence had yet been published. As I told you on Thursday the current position is that a proof transcript of the hearing has now been produced, and in the normal way is marked "In confidence until published". The proof transcript has been circulated to members of the Committee and to those who gave evidence, in order that any transcription errors can be corrected, and copies have also been made available, in the usual way, to officials in Whitehall whose work involves BL (including this Department).

4 Following yesterday's exchanges in the House, officials in this Department contacted the Clerk to the Committee this morning, and established that the position as described above was correct. However, the clerk also told us that one copy of the uncorrected proof was placed in the Library of the House (with the approval of Sir Donald Kaberry, the Chairman of the Committee). He went on to say that this was "quite normal practice" when evidence is taken in public and is likely to be of interest to Members. The Clerk also said that there was no reason why the existence of this copy should have been widely known, since the practice is not generally broadcast! He added that no breach of Parliamentary privilege is involved, since the

fact that evidence had been taken by the Committee in public was reported to the House in the notes and proceedings of the House on the day the evidence was taken. In fact, there is no way, under present procedure, by which a Member - including of course a Minister - can know with certainty whether an uncorrected proof is in the Library or not, since each instance is handled on a case-by-case basis and no notice is given when a proof is placed in the Library. The only way a Member can find out is by making a specific enquiry about the particular piece of evidence in which he is interested.

5 Mr Mikardo's question ("has the Prime Minister had an opportunity to consider the evidence .....") was in a different form from that which you put to me ("has the evidence been published"). In consequence, the answer to the latter did not, I fear, prove adequate to deal with the former.

6 I am afraid that officials in this Department who are concerned with Select Committee business were wholly unaware of this practice before today. My Secretary of State thinks the same may well be true of the majority of MPs. On the face of it, it does seem bizarre that a copy of a document that is marked "In confidence until published" should be freely available to Members in the Library! In view of this, I am sending a copy of this letter to David Heyhoe in the Lord President's office.

Yours ever
Jonathan

J P SPENCER
Private Secretary

Prime Minister

Agree to my writing as proposed?

MCS 5/2

4 February 1982

cc Mr Hoskyns

MR SCHOLAR

BL: POSSIBLE CLOSURE OF LEYLAND TRUCKS

Broad - the wider question - the cost of keeping it open allowing the strike ends not.

1. It appears from the Secretary of State for Industry's letter of 3 February that the possible closure of Leyland Trucks is under active consideration by the BL Board. When the last review took place, Treasury officials were very uncertain about the prospects of eventual viability for the Leyland Group. The Chancellor subsequently minuted the Prime Minister on 31 December 1981 expressing his misgivings about BL's future, and strongly endorsing the reservations which Treasury officials had expressed about the Leyland Group. He described the increases in productivity and market share upon which the plan was based as, "If not impossible of achievement, very ambitious. It can hardly be claimed that the prospects for the Trucks division offer anything like a commercial proposition."

2. It is arguable that a prolonged strike at Leyland Trucks may provide an opportunity for major closures which could begin to cut down the size of theBL problem to more manageable proportions. Of course there would be a serious loss of jobs. But a pessimistic view of Leyland Trucks' prospects leads one to think that the alternative is that the jobs are lost anyway, but at greater cost of continued support in the meantime.

3. I suggest that whatever happens the Prime Minister ought to have available the latest estimates of the cost of closure, including, if it is relevant, the reduced costs of closure in the circumstances of a strike. I suggest therefore that, if the Prime Minister agrees, you should send a letter along the lines of the attached draft to Patrick Jenkin's office.

AD.

ANDREW DUGUID

And the cost of keeping it going allowing the strike ends? not

Pl type asap -

4 February 1982

DRAFT PRIVATE SECRETARY LETTER

to Jonathan Spencer -

BL: LEYLAND TRUCKS CLOSURE

1. The Prime Minister has seen your Secretary of State's letter of 3 February to the Chancellor proposing that contingency arrangements should be activated for the issue of guarantees in the event that BL have to proceed within the next 2 weeks with dismissals and the closure of Leyland Trucks. She agrees that these precautions should be taken.

2. Your Secretary of State's minute of 11 December 1981, covering a report by the official group on BL, recommended continued support for BL. The recommendation contained in the official report on the Leyland Group plan (paragraph 75(i)) was that the Leyland Group plan should be approved on the basis that:

> "The benchmarks against which the plan says the progress of Leyland Trucks will be measured, and on the achievement of which decisions will be made on continuing, modifying or abandoning the plan, should be declared to the Government; and progress against them should be included in the monthly monitoring arrangements for BL as a whole."

3. The Prime Minister would like to know whether these benchmarks have been declared to the Government.

4. Annex C of the official report provided estimates of the effects of closure of Leyland Trucks. The Prime Minister would like to know whether the estimates contained in paragraph 15 of that note represent an up-to-date assessment. She understands that the redundancy costs (which averaged £5,850 per individual) would be substantially less if closure took place during a strike.

And the cost of keeping the plant going - assuming the strike ends?

5. I should be grateful if you could supply this information by close of play on ~~Monday~~ Tuesday, ~~8~~ 9 February. I am copying this letter to Tsy, D/Em, Robin Ibbs, Sir R.A.

She would also like to know the cost of keeping the ~~plant~~ business going on the assumption that the strike ~~ends~~ can be brought to an end satisfactorily

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

3 February 1982

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

Dear Geoffrey,

BL: STRIKE AT LEYLAND AND BATHGATE

I attach a copy of a letter sent to me by Michael Edwardes on 29 January reporting on the strike. You will see he proposes that we should activate the long-standing contingency arrangements between BL and the Government for the issue of guarantees in the event that BL have to proceed within the next two weeks with dismissals and the closure of Leyland Trucks.

2 As we faced a similar situation last November in the context of the BL Cars dispute, and as the Government's policy on the issue of guarantees in such circumstances is clearly defined, I do not think it is necessary this time to go into the background. I would simply ask for your early agreement that I should tell Michael Edwardes that I agree it would be sensible to activate the contingency arrangements between BL and the Government, and also that BL staff should get together with officials to prepare the ground for a formal request for guarantees if this should prove necessary.

3 I am copying this letter and enclosure to the Prime Minister, the Secretaries of State for Trade and Employment and to Sir Robert Armstrong and Robin Ibbs.

Yours ever
Patrick

CONFIDENTIAL

TELEPHONE 01-486 6000

CONFIDENTIAL 35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

29th January 1982

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

Mr Jourdin
DRAFT REPLY IF APPROPRIATE) PLEASE BY: NOON 8/2/81

PS/NL
PS/SU
PS/Sec
Mr Manzie
Mr Mountfield

Dear Secretary of State,

STRIKE AT LEYLAND AND BATHGATE

As you know, the entire workforce at the Leyland and Bathgate plants (including not only Leyland Truck plants but also the Leyland Bus facilities at Leyland and the Leyland Parts operations at Chorley) have been on strike since the second half of last week. Although the occasion for the strike was the exercise of disciplinary action against an employee who refused to carry out work connected with a product programme, the strike is clearly directed against the whole restructuring strategy for the Leyland Group announced on 20th November 1981, which is now at various stages of implementation in the different plants.

Other Leyland Group plants are working normally at present. Indeed, the only plant designated for complete closure - Guy at Wolverhampton - has accepted the closure terms. However, the strike at Leyland and Bathgate is bound to cause lay-offs at the remaining Truck and Bus plants in the near future because of supply interruptions.

In addition, the strike is preventing the shipment of spare parts, inhibiting Leyland Truck's ability to quote for new business and damaging customer confidence.

CONFIDENTIAL

Continued

You will realise that the Leyland Group will not be able to deliver its Corporate Plan if it has to withstand a long strike. If, therefore, the strike does not end soon, we shall have to force the issue by asking its employees to choose between a return to normal working and dismissal, thus making it clear that the only alternative to the restructuring plan is the total closure of Leyland Trucks.

On the other hand, we have to recognise that in the local communities centred around (and heavily dependent on) Leyland and Bathgate, the heavy redundancies required by the Plan have aroused strong feelings, and we need as much time as possible to convince employees that there is no viable alternative to the restructuring route and that the strike is therefore futile. Heavy use is being made of the local and regional media for this purpose. In addition discussions have taken place this week between Leyland Group management and the representatives of both hourly-paid and staff employees, and we are, of course, doing everything possible to bring about further discussions.

At this stage Leyland Group management have taken no final decision on the timing of any letter warning of dismissal. It is likely, however, that the financial position of the Leyland Group will require this action to be taken within the next two weeks, unless the dispute has been resolved.

Clearly we must prepare contingency plans in the event that we have to proceed with dismissals and the closure of Leyland Trucks. As Leyland Vehicles Ltd. is a guaranteeing subsidiary under the Trust Deeds governing the BLMC loan stocks, we are advised that closure, or unconditional threat of closure, of all or a large part of the business of that subsidiary would trigger repayment of the loan stocks. Cross default clauses in other loan agreements could then put much of our bank finance in jeopardy.

CONFIDENTIAL

Continued

To hold on to the loans under the loan agreements and thus protect the rest of BL's business, we may require Government guarantees to be provided to our lenders at any time after widespread dismissals have taken effect. Guarantees would, of course, be used only if there were no other means of dissuading banks from calling in their loans.

I therefore propose that we should activate the long-standing contingency arrangements between BL and the Government, whereby BL staff will be in touch with your officials over the next few days to prepare the ground for a formal request for guarantees, if the BL Board should judge this necessary.

We hope this situation will not in the event arise, but I trust you will agree that it is proper to take sensible precautions.

Yours sincerely,
Michael Edwardes.

CONFIDENTIAL

JU1 CONFIDENTIAL

SC AD.

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

3 February 1982

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

Dear Geoffrey,

BL: STRIKE AT LEYLAND AND BATHGATE

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2 As we faced a similar situation last November in the context of the BL Cars dispute, and as the Government's policy on the issue of guarantees in such circumstances is clearly defined, I do not think it is necessary this time to go into the background. I would simply ask for your early agreement that I should tell Michael Edwardes that I agree it would be sensible to activate the contingency arrangements between BL and the Government, and also that BL staff should get together with officials to prepare the ground for a formal request for guarantees if this should prove necessary.

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Yours ever

Patrick

CONFIDENTIAL

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE
LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

29th January 1982

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

Mr Jourdin

PS/NC
PS/SU
PS/SEC
Mr Manzie
Mr Mountfield

NOON 8/2/81

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In addition, the strike is preventing the shipment of spare parts, inhibiting Leyland Truck's ability to quote for new business and damaging customer confidence.

CONFIDENTIAL

Continued

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

29th January 1982

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On the other hand, we have to recognise that in the local communities centred around (and heavily dependent on) Leyland and Bathgate, the heavy redundancies required by the Plan have aroused strong feelings, and we need as much time as possible to convince employees that there is no viable alternative to the restructuring route and that the strike is therefore futile. Heavy use is being made of the local and regional media for this purpose. In addition discussions have taken place this week between Leyland Group management and the representatives of both hourly-paid and staff employees, and we are, of course, doing everything possible to bring about further discussions.

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Continued

CONFIDENTIAL

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I therefore propose that we should activate the long-standing contingency arrangements between BL and the Government, whereby BL staff will be in touch with your officials over the next few days to prepare the ground for a formal request for guarantees, if the BL Board should judge this necessary.

We hope this situation will not in the event arise, but I trust you will agree that it is proper to take sensible precautions.

Yours Sincerely,
Michael Edwardes.

CONFIDENTIAL

With the Compliments of

ROBIN IBBS

CENTRAL POLICY REVIEW
STAFF

Cabinet Office
Whitehall London
SW1A 2AS

Telephone 01- 233 7765

Ind Pol

cc AD

CABINET OFFICE

Central Policy Review Staff

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

From: J. R. Ibbs

PERSONAL - COMMERCIAL IN CONFIDENCE

Qa 05794

27 January 1982

Dear Secretary of State,

BL Future Structure

I heard this morning from Sir Peter Carey that the Prime Minister had accepted the terms of reference for consultants and also the draft objectives attached to your minute dated 26 January. I understand you would therefore like me to proceed immediately on the basis agreed at the meeting in your office on 19 January, namely that the CPRS should commission the consultants and subsequently report the findings of the study to the Group of Ministers concerned.

Accordingly, I have this afternoon seen the senior partners of the Corporate Consulting Group and commissioned such a study to be completed in four weeks' time.

I confirm I shall bring the consultants to see you at 3.00 p.m. tomorrow so that you can explain the Government's objectives for BL. I have also made arrangements to take the consultants to an initial meeting with Sir Michael Edwardes later that afternoon.

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

Yours sincerely,

J R Ibbs

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
S W 1

Prime Minister ②

MLS 27/1

Ind Pol

27 January 1982
Policy Unit

PRIME MINISTER

1. The late arrival of Patrick Jenkin's latest proposals on BL's objectives last night precluded us offering you any comments. In any event, unless you wanted to bring matters to a head now, risking Board resignation, there did not seem much choice but to accept the changes that Patrick commended.

2. Nevertheless, we should be absolutely clear among ourselves that Edwardes is giving a clear warning that BL will require more Government funding in 1983/4 and 1984/5. The objectives that we have been able to agree with him still fudge the vital issue of the timescale on which the "constituent businesses will be returned to the private sector". This is left completely open, and Edwardes' insistence on a reference to public funding for this year and next (leaving open the question of future funding) strongly implies that the BL Board confidently expects BL to have its hand in our pocket for many years to come.

3. It remains necessary, therefore, to straighten out the objectives in terms of timescale before we select a new Chairman - or Chairmen if the business is to be split. We must not repeat the experience with Edwardes, whereby he works to a set of objectives ("recovery") in which we have no faith.

4. I was glad to see that Michael Scholar's letter qualified your acceptance of these objectives by the phrase "in the context of the present consultant's study the Prime Minister accepts . . .". Patrick Jenkin will have to speak plainly with the new Chairman when the time comes to appoint him - or them. There is no reason why plain speaking should not include the Government's preference for avoiding large-scale closure during the next 2 years, if that is an overriding constraint. But even that raises the question "- at any price?"

5. One final point. Patrick mentions the possibility of closure through a suicidal strike. BL regularly threatens to commit suicide. To a very large extent, it is up to Government to decide when to let it do so. There has been - and there will be - no shortage of opportunities if we want to take them.

JH

JOHN HOSKYNS

cc. MR. DUGUID FO

CF

10 DOWNING STREET

From the Private Secretary

27 January, 1982.

BL: Future Structure

The Prime Minister was grateful for your Secretary of State's minute of 26 January about the terms of reference and related draft objectives which are to be the basis of the consultants' study on BL's future structure.

In the context of the present consultants' study the Prime Minister accepts both the suggested amendments to the draft objectives for use in this study, as set out in paragraph 4 of your Secretary of State's minute. As to Sir Michael Edwardes' proviso that the wording should reflect the spirit as well as the letter of the Government's priorities, the Prime Minister has commented that she will leave this to the Secretary of State.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

08S

CONFIDENTIAL

JH 226

A.D
AW.

(1)

Prime Minister

cc A.D.

Do you agree these amendments to the objectives?

MCS 26/1

PRIME MINISTER

I'll accept the words and leave the spirit to S of S

M.

BL: FUTURE STRUCTURE

Following our meeting last evening, I have had a meeting with Sir Michael Edwardes about the terms of reference and related draft objectives which are to be the basis of the consultants' study on BL's future structure. Sir Michael had with him Sir Austin Bide (Deputy Chairman) and the two executive members of the Board (Messrs Andrews and Horrocks) who would be Chief Executives of the two independent companies if his proposal were implemented.

2 Sir Michael and his colleagues put great emphasis on the fact that it was the Board's own objective, to which they were personally deeply committed, to return the business to the private sector as soon as possible, and that the Corporate Plan we have just approved had this as its objective. For myself, I accept that this is so. But they argue that to accelerate private ownership of certain parts, and hence separation of those parts from the core of businesses of volume cars and trucks, would be impossible without risking the collapse of those core businesses. They stake their commercial judgement on this assessment.

3 It follows that to insist on giving greater priority to

immediate privatisation would be seen by the Board as overturning their commercial judgement. They would take the view that this would risk the survival of the volume cars and trucks operations. In my view we certainly cannot discount the possibility of the resignation of Sir Michael, most or all of his non-executive directors and the key executives who on any analysis are needed if the volume cars and trucks operations are to continue.

4 Sir Michael and his colleagues put forward two changes to the draft objectives which they wished to see if they are to go along with the consultants' study (they are content with the terms of reference):

a) in objective 1, reference should be made to the objective already stated in the 1982 Corporate Plan which we have just accepted. It should thus read: "to implement the strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy".

b) in objective 3, the reference to public funding should not exclude (any more than it should commit) the total of £150m which was shown as new Government equity in 1983/84 and 1984/85 in both the last two Corporate Plans. The position on this is that Keith Joseph announced last January that the Government had taken no view on any further Government finance after 1982/83, though we hoped it would come from the private sector. I do not think it is sensible or timely to change that view at present. Sir Michael proposes that the relevant passage should read: "wholly within the limits of public funding already agreed for the financial years 1981/82 and 1982/83, and announced by the Government".

With these two changes, Sir Michael and his colleagues would be prepared to accept the enquiry, but only provided they were assured that, on the first, the wording reflected the spirit as well as the letter of the Government's priorities.

5 In practical terms, I think we have little alternative but to accept both the suggested amendments and the proviso. Politically, I do not believe we can afford a closure of BL's volume cars or truck operations - unless, of course, they commit suicide by a major strike, in which event the Board have indicated that they themselves would recommend closure. Nor do I think we can afford a highly publicised mass resignation by the

BL Board on this issue. And in any case, opportunities for complete sale of significant parts of the business in the immediate future, on politically acceptable terms, are not in abundance. In practice therefore I think we have little to lose by accepting what Sir Michael proposes, and a lot to lose from rejecting it.

6 I therefore commend the draft objectives with the amendments shown in the attached version, with the terms of reference as circulated with your Private Secretary's letter of 25 January; on the basis that I can assure Sir Michael that these represent the spirit as well as the letter of the Government priorities.

7 I am sending a copy of this letter to the Chancellor of the Exchequer, the Secretaries of State for Trade and for Employment, Sir Robert Armstrong and Mr Robin Ibbs.

P.J.

P J

26 January 1982

Department of Industry

DRAFT OBJECTIVES

The objectives for BL's business are:

1 To ~~plan-and~~ implement the ~~a~~ strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

2 Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

3 To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed for the financial years 1981/2 and 1982/3 and announced by the Government, so that the business can be made to operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

PERSONAL AND CONFIDENTIAL

Ind. Pol MFT

File

cc: DOT
D/M
HMT
CPRS
CO

10 DOWNING STREET

From the Private Secretary

25 January 1982

bc: A. Duguid

BL Future Structure

The Prime Minister held a discussion this evening with the Chancellor, the Secretaries of State for Industry, Trade and Employment; Robin Ibbs and John Hoskyns were also present.

The Prime Minister said that she found that the terms of reference for the Corporate Consulting Group, and the attached objectives for BL which were enclosed with your Secretary of State's minute to her of 21 January, were lacking in clarity. In particular she thought that objective ii(a) was inconsistent with the remainder of the objectives, that there appeared to be a broad hint at the beginning of objective ii that further Government finance beyond that already agreed would be available, and that the second paragraph of the terms of reference gave insufficient emphasis to the interests of the Government as shareholder in BL.

After discussion the attached revised terms of reference and objectives were agreed. The Department of Industry would put these to Sir Michael Edwardes and his board as soon as possible, to enable the Corporate Consulting Group to commence their work.

I am sending a copy of this letter to John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), John Kerr (HM Treasury), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

MS

Jonathan Spencer Esq
Department of Industry.

10 DOWNING STREET

Prime Minister.

Michael Scholar has suggested that you might like to see the final Terms and Objectives which emerged from this evening's meeting on BL. Patrick Jenkin will be putting these to Michael Edwardes tomorrow morning.

Alan Ley

Duty Clerk

25/1

Thank you.
I think the layout
of para 2 of
the Terms of
Reference could be better

clause 2

(i)
(ii) a) b) not

DRAFT: A

The objectives for BL's business are:

1. To plan and implement a strategy for the return of all constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

2. Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

3. To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed and announced by the Government, so that the business can be made to operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support,

<u>TERMS OF REFERENCE FOR CONSULTANTS</u>

1. To consider and make recommendations in the light of the draft Government objectives for the group (copy attached), on whether any changes are desirable, in connection with the departure of Sir Michael Edwardes at the end of 1982 in the organisation for management of the activities within the BL group, and if so what form of organisation might best meet these objectives.

2. The investigation will evaluate the proposals made by Sir Michael Edwardes and the Board and recommend alternatives where appropriate; taking into account (i) the Government's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the businesses to the private sector; (ii) the Board's responsibilities (a) to make commercial judgments and (b) to measure and control the operating efficiency of the company.

   The study should cover the possibility of retaining a single holding company with two or more major operations, or a number of smaller operations for which management responsibility is fully delegated.

3. This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government departments without prior consultation with the Chairman.

TERMS OF REFERENCE FOR CONSULTANTS

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2. The investigation will evaluate the proposals made by Sir Michael Edwardes and the Board and recommend alternatives where appropriate; taking into account (i) the Government's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the businesses to the private sector; (ii) the Board's responsibilities to make

commercial judgments and

measure and control the operating efficiency of the company.

~~(iii) to decide the commercial~~

Recommendations should include the possibility of retaining a single holding company with two or more major operations, or a number of smaller operations for which management responsibility is fully delegated.

3. This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government departments without prior consultation with the Chairman.

DRAFT: ALTERNATIVE B (version closer to Mr Jenkin's)

The objectives for BL's business are:

1. To dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

2. To pursue a programme of product ~~and market development,~~ market and business development, wholly within the limits of public funding agreed and already announced by the Government so that the business can operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

3. Consistent with 1 and 2 above, to plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure nothing done under 1 and 2 will prejudice this strategy.

DRAFT: ALTERNATIVE A (Your preferred version)

The objectives for BL's business are:

1. To plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

2. Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

3. To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed and announced by the Government, so that the business can operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

DRAFT: ALTERNATIVE A

The objectives for BL's business are:

1. To plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

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3. To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed and announced by the Government, so that the business can operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

DRAFT: ALTERNATIVE B

The objectives for BL's business are:

1. To dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

2. To pursue a programme of product ~~and market development~~, market and business development, wholly within the limits of public funding agreed and already announced by the Government so that the business can operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

3. Consistent with 1 and 2 above, to plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure nothing done under 1 and 2 will prejudice this strategy.

TERMS OF REFERENCE FOR CONSULTANTS

1. To consider and make recommendations in the light of the draft Government objectives for the group (copy attached), on whether any changes are desirable, in connection with the departure of Sir Michael Edwardes at the end of 1982 in the organisation for management of the activities within the BL group, and if so what form of organisation might best meet these objectives.

2. The investigation will evaluate the proposals made by Sir Michael Edwardes and the Board and recommend alternatives where appropriate; taking into account (i) the Government's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the businesses to the private sector; (ii) the Board's responsibilities to measure and control the operating efficiency of the company.

   Recommendations should include the possibility of retaining a single holding company with two or more major operations, or a number of smaller operations for which management responsibility is fully delegated.

3. This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government departments without prior consultation with the Chairman.

Prime Minister

22 January 1982 (1)

MR SCHOLAR ✓

You have the papers and may find this note helpful. I have pencilled in a meeting with the Ministers concerned and Robin Ibbs immediately after EX on Monday. Agree to this?

MCS 22/1

BL OBJECTIVES

A postscript to our note to the Prime Minister last night:

1. If the Prime Minister agrees that our objective is still disposal, we still have to work out how to impose the objective. We can either have a row with the present Board and find replacements; or we can ensure that we give the right objectives (once we've worked them out) to Edwardes' successor(s), who must be the right people for the job.

2. A row now could precipitate a difficult, leaderless phase. But if we let the study go ahead, as proposed, (even with the objectives modified so that they explicitly apply to Edwardes' remaining 9 months only) there is still a danger that we end up with his nominated successor(s) who then, like Edwardes, threaten to resign when given new and more realistic objectives. A similar difficult, leaderless phase could then ensue, precious months having been wasted in the meantime.

3. If the Prime Minister accepts our line of thinking, and wants to install the right people with the right objectives, Robin Ibbs needs to be told this, so that the study produces not only the answers called for in the agreed remit, but also advice for the Government only on objectives for disposal within stated constraints of time and funding; and on the suitability or otherwise of Edwardes' nominated successor(s) for achieving those objectives. If the people aren't suitable, we will need to start the search for the right ones soon.

ANDREW DUGUID

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

cc. AD

JH 167

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

22 January 1982

(2)

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

Prime Minister

MCS 22/1

Dear George,

Thank you for your letter of 22 December supporting the proposal that BL's 1982 Corporate Plan be approved. As you will know, Norman Lamont announced before the Christmas recess the Government's approval of the Plan.

2 Scotland has indeed had to bear the brunt of much - although by no means all - of the Leyland Group's restructuring over the last couple of years, with further substantial redundancies being announced last November. I appreciate the hardships this has caused and can understand your concern that future redundancies be kept to a minimum. It is, of course, not possible to say with certainty how the Leyland Group will perform in the future, but I think the outlook is more hopeful than it has been for some time. For the first time in well over a year, the Group now has a coherent and realistic plan which has been endorsed by the Board and which offers real hope for the future survival and prosperity of the businesses involved.

3 However, I would be the last to pretend that the going will be easy particularly in view of the current fierce competition in the commercial vehicle market. The task that faces the management in carrying out the reorganisation, model development and control of costs envisaged in the Plan is clearly considerable. I do think it is important that the Government should not make the task more difficult by trying to become involved in this process. Should the Group's performance deteriorate, then the BL Board might consider drastic action, possibly including closure of the trucks business, to be necessary. Any such major decision would be discussed by Ministers, and you would of course have the opportunity to make your views known then.

4 But, as I have said, the establishment of a Plan which firmly

tackles the Group's current difficulties is a major step forward and, I believe, gives grounds for cautious optimism.

5 I am copying this letter to the Prime Minister, Geoffrey Howe and Norman Tebbit.

Yours ever

Patrick

JH 197

Prime Minister

Robin Ibbs believes that CCG is the right consulting group; that they can do the work in four weeks; that the terms of reference are satisfactory; and that the objectives are as good as we could get with the present Board (Robin would have preferred (iii) promoted to (i), and the existing (i) and (ii) made decidedly subsidiary). Do you agree, subject to the proviso at X in John Hoskyns' note?

MCS 21/1

Objectives much too vague. We will decide them next week but CCG start on Monday

PRIME MINISTER

BL FUTURE STRUCTURE

At the meeting of Ministers which you chaired on 14 January, it was agreed that the Government should seek independent advice on the BL Board's proposal for the future structure of the company and that I should, in conjunction with the CPRS, investigate the possibility of procuring the services of consultants for this purpose.

2 Robin Ibbs and I have discussed the possible candidates for this task, including Coopers and Lybrand, the Corporate Consulting Group (CCG) and McKinseys. McKinseys are currently advising Nissan about their proposed investment in the UK and I think that this rules them out for advising on BL because of a possible conflict of interest. Coopers and Lybrand would not be able to take on the task, so Robin Ibbs has approached the CCG, who he believes would be well qualified as the problem is very much in the area in which they specialise. They are well regarded also by my own Department. The CCG would be prepared to undertake a four week investigation starting next Monday; because there would be a need for major rearrangement of other parts of their work, they have asked if they could have an indication as early as possible this week of whether they were to be asked to do this work.

3 I attach draft terms of reference for the consultants which I have drawn up with the help of Robin Ibbs. As you will see, they have as an attachment draft Government objectives for BL. Because it is important for the purposes of this exercise that both BL and the consultants should be clear about the Government's objectives, these have been discussed informally with Sir Michael Edwardes in advance of the paper which I shall be putting shortly to the E(NI) Committee containing objectives for all the industries sponsored by my Department.

4 The BL Board have behaved very responsibly over this matter. They do not like the idea of an enquiry by consultants, but have agreed to it. They attach great importance to the wording of the terms of reference and the draft Government objectives. I am satisfied that these are now clear and have the right emphasis. The Board have agreed to cooperate fully with the consultants of our choice.

5 I should be grateful for your early agreement to the appointment of the Corporate Consulting Group and to the terms of reference which Robin Ibbs and I propose to give them, so that they can make an immediate start on the enquiry.

5 I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment, and to Sir Robert Armstrong and Robin Ibbs.

PJ

P J

21 January 1982

Department of Industry

DRAFT

ANNEX I

CONFIDENTIAL

TERMS OF REFERENCE FOR CONSULTANTS

1. To consider and make recommendations, in the light of the draft Government objectives for the Group (copy attached), on whether any changes are desirable, in connection with the departure of Sir Michael Edwardes at the end of 1982, in the organisation for management of the activities within the BL Group, and if so what form of organisation might best meet these objectives.

See overleaf for fuller version of next para.

The investigation will evaluate the proposals put forward by Sir Michael Edwardes and the BL Board and consider ~~appropriate~~ and if appropriate recommend alternatives, taking into account ~~of the Board's responsibility to judge the company's commercial interests, and the Government's~~ (i) the Govt's need as shareholder to satisfy itself that any changes will not ~~impede~~ prejudice the objective of returning the businesses to the private sector. (ii) * ~~These~~ Recommendations should include the possibility of retaining a single holding company with either two or more major or a number of smaller operations for which management responsibility is fully delegated.

This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government Departments without prior consultation with the Chairman.

* (ii) the Boards responsibilities to measure and control the operating efficiency of the Company.

2. The investigation will evaluate the proposals made by Sir M.. E. and the Board and recommend alternatives where appropriate; taking into account

(i) the Govt's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the business to the private sector

(ii) the Board's responsibilities to measure and control the operating efficiency of the company.

Recommendations should include the possibility ~~with~~ of retaining a single holding company with two or more major operations, or a number of smaller operations for which management responsibility is fully delegated

CONFIDENTIAL

DRAFT

The objectives for BL's business are:

commercially it 1. to - sell with loss-making sector?

~~i.~~ 2 ~~to streamline the business through the~~ disposal or closure of peripheral activities so as to concentrate on ~~the mainstream activity of~~ vehicle manufacture and sales; - ~~sell through loss-making~~?

~~ii.~~ 3 to pursue a programme of product, market and business development, wholly within the limits of public funding already agreed and announced by Government, ~~to ensure that~~ so that the business can operate on a continuing commercial basis, and in particular to bring about:

For how long? how much?

a. the recovery of the business to breakeven, before interest and tax, in 1983; ?? I do not ~~understand~~ this.

b. ~~the~~ the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support;

iii. consistent with (ii) above 1. to plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under (ii) and (ii) will ~~impede~~ prejudice this strategy.

No.!

2. ~~to di~~ consistent with 1. - to dispose of or close peripheral activities so as to concentrate vehicle manufacture and sales

3. to pursue a programme of product market and business development - wholly within the limits of public funding already agreed and announced by Government so that the business can operate on a continuing commercial basis and in particular to *

PERSONAL AND CONFIDENTIAL

21 January 1982

Policy Unit

PRIME MINISTER

BL's FUTURE STRUCTURE

Here are our comments on Patrick Jenkin's minute of 21 January which encloses draft terms of reference for consultants and draft objectives for BL's business.

1. The terms of reference for consultants (Annex 1) look about right. In particular they raise the question of breaking BL into more than two subsidiary operations. It should be perfectly possible to do this so that there is the maximum flexibility in putting together two or more of these smaller units for a potential buyer, without impairing day-to-day management (which could still be in two major sub-groups, each composing several of the smaller units) in the meantime.

2. We are not, however, happy about the objectives for BL's business. These objectives imply that Edwardes will be allowed to continue trying to make BL as a whole recover, with no urgency about disposal. True, the objectives refer to "the limits on public funding agreed by Government" but that seems too vague. Is Edwardes to understand that the funds at present agreed constitute that limit? Is he under pressure to make major disposals to reduce the risk of those limits being reached and the funds exhausted? If those funds are exhausted, does he assume that he can come back for more?

3. When Robin Ibbs prepared speaking notes for your planned meeting with Edwardes a year ago (his minute of 19 January 1981) he stated the assumed Government objectives for BL. The first page of Robin's minute is attached, with the key sections marked.

4. Instructions to Edwardes to dispose of all BL Group companies only had meaning if a deadline was set, as per Robin's 2(i). But such a deadline implies a clear answer to the question "What if we have not completed the disposals by the deadline?" The implication must be that what has not been disposed of will be liquidated. This may not be made explicit to Edwardes, but has to be faced by the Government.

PERSONAL AND CONFIDENTIAL

5. In fact, that planned meeting was handled by Geoffrey and Keith. As I understand it, Edwardes said that such objectives would involve the closure of volume cars. In consequence, those objectives were effectively shelved and the BL Corporate Plan approved.

6. With Edwardes' departure less than a year away and the BL Board presumably set to resign if they are offered unacceptable objectives, it does not seem practicable at this stage to revert to our original aims and try to impose them on the Board. Instead, we will need to think imaginatively about the terms of reference for Edwardes' successor(s). This will mean, once again, taking a view on whether genuine recovery is possible, setting fresh deadlines for disposal or closure where agreed criteria of recovery are not achieved, and perhaps even giving the new Chairmen financial incentives linked to those disposals.

1

7. The draft objectives on Patrick's minute are therefore simply a fudge of the real problem. That does not matter if we can present them explicitly as objectives which are valid for the remainder of Edwardes' term as Chairman.* The danger, in their present form, is that they could, without our realising it, be accepted as an agreement to fudge if necessary beyond Edwardes' term, so that his successor and the other Board members (whoever they may be at that time) start their term with the same conflict between their objectives - as set down in Patrick's draft - and the Government's true objectives which may by then have been almost lost sight of.

X X

I am copying this minute to Robin Ibbs and Sir Robert Armstrong.

JH

JOHN HOSKYNS

*IE New Chairmen will require new objectives.

Qa 05224

To: PRIME MINISTER

From: J R IBBS

BL: Speaking Notes

1. Attached are speaking notes for your meeting with Sir Michael Edwardes on Tuesday.

2. The notes have been compiled on the assumption that the Government's objectives for BL will be:

(1) By early-1983, to have none of the BL Group of companies left in Government ownership;

(2) By mid-1982, to have disposed of as much as possible as going concerns (with injections of additional finance where necessary), and to be prepared then to plan for closure of any parts of the Group that seem unlikely to be sold in this way;

(3) By end-1981, to know which bits are likely to be saleable, to whom, and under what terms.

3. It is most important that Michael Edwardes should not gain the impression that the Government regards BL's prospects as hopeless, and that it is merely deferring closure as a matter of political convenience. This would give him grounds for a spectacular resignation.

4. Since this policy of systematic disposal seems more likely to succeed with Michael Edwardes than without him, the main purpose of the meeting will be to secure his co-operation. However, he should not be given the impression that he is indispensible.

5. He will expect, and I think he should receive, a frank description of the Government's new objectives for BL. I consider it most important, however, that he does not come to interpret the new policy as one of deferred closure. We doubt whether he would willingly co-operate in such a policy.

c/c A.D. Ind Pol

Prime Minister

(2)

I have asked that you be consulted about the terms of reference of the study.

MLS 20/1

CABINET OFFICE

Central Policy Review Staff

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

From: J. R. Ibbs

Qa 05780

COMMERCIAL IN CONFIDENCE
and PERSONAL

20 January 1982

Dear Secretary of State,

BL Organisation

In the light of the meeting in your office yesterday morning with Michael Edwardes and the non-executive directors of BL, I believe that the Corporate Consulting Group (CCG) would be suitable consultants to make recommendations on the future organisation of BL. The problem is very much in the area in which they specialise and they are well regarded by people who have used them.

CCG is run by the two senior partners, Leslie Dighton and John Scott-Oldfield. These two came to see me yesterday evening. I discussed the problem with them and they are prepared to undertake a four week investigation starting next Monday. They displayed a rapid grasp of the nature of the problem and appeared well qualified to tackle it. They are willing to clear their own programmes so that they themselves, together with one of their senior colleagues, would do the whole job. They fully understand the need for confidentiality and for working at Board level only. They estimate that the cost would be £65,000 to £70,000. This is a fairly high figure but is, I believe, understandable since we would get the full time attention of the top people. I cannot see a substantially cheaper way of arriving quickly at a solution.

Because there would be a need for major re-arrangement of other parts of their work, Dighton and Scott-Oldfield asked if they could have an indication as early as possible this week of whether or not they were to be asked to do this work. If you and your colleagues wish it to go

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

ahead CCG would nominally be advising the CPRS and I would go with them for initial discussions with Michael Edwardes and would present their findings. They also asked whether at the start of the study the three of us could call on you for fifteen minutes so that they can fully understand the objectives that Ministers have for BL by hearing directly from you some amplification of a formal written statement of these. Because the question of objectives is central to resolving any differences between the Government and the Board, this seems to me a sensible suggestion.

I understand that good progress is being made on setting down a revised statement of objectives and also on drawing up the study terms of reference on which the Prime Minister asked to be consulted.

I shall be grateful for an indication as soon as possible of whether I should ask CCG to take on this task.

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

Yours sincerely,

J R Ibbs

PERSONAL AND CONFIDENTIAL

JR

cc Mr Duguid.

10 DOWNING STREET

From the Private Secretary

14 January 1982

Dear Jonathan,

BL FUTURE STRUCTURE

The Prime Minister discussed your Secretary of State's minute of 22 December together with the Chancellor's minute of 12 January, with the Chancellor of the Exchequer and the Secretaries of State for Industry, Trade and Employment. Mr. Ibbs and Sir Robert Armstrong were also present.

The Secretary of State for Industry outlined the proposals which Sir Michael Edwardes and his Board had put forward on the future of the Leyland Group. His proposal that the Cars Group and the Unipart Group should be formed into one company and that the Leyland Group and the Land Rover Group should be formed into another was fully compatible with the Company's objectives for rapid privatisation to the maximum possible extent. There was also considerable internal logic in these two groupings: there would be two distinct businesses which could be more effectively managed as such rather than held together in an unwieldy combine which would be beyond the capacity of Chairman and Board to handle effectively. It would reduce the risk that collapse in one part of the Group, say the volume cars section, would bring down the more profitable parts. More importantly, it would insulate the businesses in the Group from the spread of labour relations problems from one part to another. There would be advantages from commonality in dealership and in parts. There would be no sense in the Department of Industry owning four separate and independent entities created out of the existing grouping.

In discussion, it was argued that many of these considerations pointed more powerfully to a proposal to split the Group four ways rather than two ways. Sir Michael Edwardes' present stance appeared to be inconsistent with his previous position and that of the Board - that all the vehicle interests of BL needed to remain inviolate as a single entity in order to maximise the opportunity for collaborative deals. In particular, the proposal to put Land Rover in an entirely separate company linked with the Leyland Group seemed to be a complete reversal of the argument earlier advanced by the Board. It was disturbing to learn that Land Rover seemed to be in a worse shape than it had been twelve months ago. There seemed to be considerable doubt

/ about

about whether the Government's and the Board's objectives were the same. If the Government's original wishes had been met, Land Rover and Unipart would have been sold separately. The Board had been opposed to this, and the consequence was that we now had an unprofitable Land Rover and a very unsatisfactory Trucks Division. Further, even on the notion of collaboration, there seemed to be a misunderstanding between the Board and the Government. The Government saw collaboration as a means of acquiring equity partners for BL; BL's conception seemed to involve little or no financial responsibility on the part of their collaborating partner. There seemed to be no logic in the Board's present proposal; it looked more like management juggling than a coherent plan for putting the business in a position to be sold off successfully sooner rather than later.

The Prime Minister said that it was agreed that the Government should seek independent advice on the Board's present proposal, and alternative plans for the future of BL. The Secretary of State for Industry should, in conjunction with the CPRS, investigate the possibility of procuring the services of McKinseys for this purpose. McKinseys would need to be given a clear remit, and to be asked to report within six weeks. The Prime Minister would be grateful to be consulted about the terms of the remit proposed for McKinseys.

B/F

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer Esq.,
Department of Industry.

Prime Minister

8 January 1982

MRS 8/1

(2)

MR SCHOLAR

cc Mr Hoskyns

BL FUTURE STRUCTURE

1. I agree very much with the criticisms contained in Robin Ibbs' advice on Edwardes' proposal to split BL into two.

2. Using the arguments in Robin Ibbs' minute, it seems to me that the examination of alternatives suggested in paragraph 6 should not take place until the Government is clear about its objectives for BL. This need for clarity about objectives is stressed in paragraph 3 of the Ibbs minute. Over 2 years ago it was clear to Ministers that one of their primary objectives was to bring to an end the Government's ownership of BL - or as much of it as possible - by complete sale, partial sale, or collaboration leading to either. But I don't think the importance and urgency that the Government attaches to this has ever been completely understood or accepted by the BL Board itself. They do not seem to have devised these latest proposals as part of a strategy for achieving greatly reduced dependence on Government funding, as quickly as possible.

3. So the proposed study of structure can't start until the objectives are stated. Ideally, they would be agreed with the BL Board. But in the last resort, it is for Government, as owner, to decide its objectives - especially its ownership objectives.

AD

ANDREW DUGUID

I agree with Robin Ibbs points and proposals.

MT

SCAD

(2)

Prime Minister

MCS 8/1

Qa 05769

CONFIDENTIAL
AND PERSONAL

To: MR SCHOLAR

From: J R IBBS

MT

7 January 1982

BL: Future Structure

1. In his minute dated 22 December the Secretary of State for Industry seeks support for the proposal from Michael Edwardes to split BL into two parts. This is to be discussed at the Prime Minister's meeting on Thursday, 14 January.

2. The proposal was originally put forward in July last year. At that time I pointed out that it was inconsistent with the previous stance taken by Michael Edwardes and the Board (on which it was said they were prepared to resign) that all the vehicle interests of BL needed to remain inviolate as a single entity in order to maximise the opportunity for collaborative deals - in particular, that Land Rover must be kept available as potentially a most valuable bargaining counter for obtaining some partnership deal for volume cars. To put Land Rover in an entirely separate company linked with the Leyland Group remains a complete reversal of that argument.

3. Obviously any re-organisation of BL, whether as proposed now by Michael Edwardes or in some other way, should arise from the objectives which the Government wishes the Company to pursue, and a specific decision should be based on an evaluation of alternatives. Ministers have yet to see the objectives for BL, requested by E(NI) with those for major nationalised industries. Michael Edwardes's paper contains only limited dismissive consideration of alternatives and is mostly concerned with mechanism and consequences rather than evaluation of the proposal.

4. The Secretary of State in his paper lists a number of advantages and disadvantages of the proposal. Even so many aspects are quite unclear. It is not explained how the Boards of the new companies will be structured, how large they will be or who will be on them. Nor is

it clear how the split of present unified services will be handled or how additional costs from duplication will be avoided. There is no indication of the cost of the re-financing of loans nor of dealing with the rights of the outside shareholders. Although it is explained that the need to keep the proposal extremely confidential has, understandably, prevented full working out of details, nevertheless outline indications on all the above should have been possible. The present non-executive directors of BL are said strongly to support the proposal but it is all the more worrying if they have done so without reasonable clarification of points such as these.

5. In so far as arguments in support of the proposal are advanced some of them are at least questionable. For example, "It recognises the existence of two distinct coherent businesses which will be more effectively managed as such, rather than brigaded together in an unwieldy and illogical combine which throws up management problems beyond the capacity of a single Chairman and Board to handle." It might be said that it has taken a long time to get this admission that managing BL is beyond the capacity of the Chairman and the Board. However, in world terms as vehicle manufacturers BL are in fact fairly small and there are plenty of much larger equally diversified vehicle companies that are managed reasonably successfully; for example in Europe Renault which like BL is state owned and an integrated car and truck manufacturer. Nevertheless the problems in BL Cars and the Leyland Group remain serious and the organisation needs to be such as to attract people of high talent rather than a means of trying to accommodate lesser men.

6. I do not believe a rational decision can be taken on the present evidence. One possibility would be to ask Michael Edwardes at least to provide a rather more detailed quantified proposal together with proper evaluation of one or two sensible alternatives, including for example, the one the Prime Minister has suggested. Because Michael Edwardes

and the Board may be deeply committed to the present proposal, and examination of alternatives involves the personal futures of some senior executives in BL, it may be that the advice of outside consultants such as McKinseys should be sought. Such a study would only need to take a few weeks and could be sponsored either by the BL Board or if Ministers wished by Government, possibly through the CPRS.

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

JR

2

Prime Minister

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

MLS 12/1

PRIME MINISTER

BL: FUTURE STRUCTURE

I see that we are to meet on 14 January to discuss the proporal outlined in Patrick Jenkin's minute of 22 December.

2. I agree with your comments as recorded in your Private Secretary's letter of 5 January. We must not allow a hasty decision on re-structuring to prejudice the possibilities for disposal of parts of the business.

3. Indeed, this is a decision of such importance (because BL is so important to the economy) that it ought not to be taken without careful study of the case for the change in the light of the best available advice not just from officials but also, perhaps, from merchant bankers and management consultants.

4. We should not allow our options to be constrained by the impending departure of Sir Michael Edwardes. The future structure and the choice of management are inevitably bound up together. But it would not be right to allow our conclusions to be determined by Sir Michael's views on the men to fill the jobs, and his obvious assumption that there is no-one available, either in this country or abroad, who could fill his shoes.

5. I believe that we should decide on Thursday:

(a) to ask for further expert advice; and

(b) to tell Sir Michael Edwardes that we shall not

CHANCELLOR OF THE EXCHEQUER

be able to give him an answer in time for him to make an announcement in the second week of February as he would wish.

6. I am sending copies of this minute to the Secretaries of State for Industry, Trade and Employment, to Mr Ibbs and to Sir Robert Armstrong.

(G.H.)

12 January 1982

12 JAN 1982

Incl Pol

JV

bc AD
JV

10 DOWNING STREET

From the Private Secretary

5 January 1982

CONFIDENTIAL AND PERSONAL

B/F

MS

BL: FUTURE STRUCTURE

The Prime Minister was grateful for your Secretary of State's minute of 22 December about the future of the Leyland Group.

The Prime Minister has commented that she is worried about the move proposed by Sir Michael Edwardes. She believes that it will prevent the Government from selling off Land Rover and Jaguar. The Prime Minister is anxious to sell off as much as possible of the Group, and considers that the proposed structure would put too much loss-making activity into each company.

The Prime Minister would like a discussion of these issues. An ad hoc meeting has now been arranged for 0915 on Thursday 14 January.

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

M. C. SCHOLAR

Ian Ellison, Esq.,
Department of Industry.

File

DSG

MR. SCHOLAR   cc: Mr. Whitmore

MEETING TO DISCUSS BRITISH LEYLAND'S FUTURE STRUCTURE.

This is arranged for Thursday 14 January at 0915. The following will be attending:

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Trade
Secretary of State for Employment
Sir Robert Armstrong
Mr. Robin Ibbs
Mr. John Hoskyns

CAROLINE STEPHENS

5 January 1982

CONFIDENTIAL

J

cc- A Duguid

10 DOWNING STREET

From the Private Secretary 5 January 1982

BL 1982 CORPORATE PLAN

The Prime Minister has seen and noted the Chancellor's minute of 31 December about his misgivings as to BL's 1982 Corporate Plan.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Industry, Scotland, Trade and Employment, and to Mr. Ibbs and Sir Robert Armstrong.

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

CONFIDENTIAL

(2)

c/c AD
JV

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

Prime Minister

To note.

MCS 4/1

PRIME MINISTER

BL 1982 CORPORATE PLAN

I gave my agreement to the announcement which the Industry Secretary made on 22 December indicating the Government's acceptance of the 1982 Corporate Plan. But I did so with some hesitation. I would like to explain my misgivings.

2. The industrial relations scene in the two months since the Plan was proposed gives one little confidence that things will go smoothly and that production and cost targets will be met. Even if all goes well the Plan foresees a rather precarious viability for the Group in 1986; while if not, we shall again be faced - perhaps at a still more difficult time - with the choice between still more Government support and the massive costs and problems of closure. It is important not to lose sight, because of concentrating on the smaller loss figures, of the enormous amounts of cash which the company currently absorbs: more than £½ billion a year this year and next. What the Group's future demands will be must be very uncertain. I am not confident that they will diminish. By no means can the Government's investment in the Group be regarded as remotely economic. There must be particular doubts about the Leyland Group, to which I return below.

3. I was prepared to accept the Plan because it represented the second stage of a programme provisionally agreed last year, and because no extra money was being sought. But I am disturbed by the deterioration in the Group's prospects in the past year.

/I think that with the

I think that with the prospective departure of Sir Michael Edwardes and his proposals for restructuring the Group, we ought to begin some new strategic thinking about the future of BL before 1982 is far advanced. Patrick Jenkin has put to us certain recommendations about structure, to which we shall need to give careful thought - not least because of their implications for the prospects for privatisation of parts of the Group. Our discussion of that subject will need to be wide-ranging.

4. The most urgent questions arise, of course, on the Plan for the Leyland Group. I endorse strongly the reservations which Treasury officials expressed in the interdepartmenal Group. The assumed increases in productivity and market share upon which this Plan is based are, if not impossible of achievement, very ambitious. It can hardly be claimed that the prospects for the Trucks Division offer anything like a commercial proposition. I suggest that we should not wait until the 1983 Corporate Plan to review the Leyland Group but should take a deeper look at it soon and not later than mid-year against the background of the monitoring information to date. We should then indicate to the Board the full range of options we would wish to see explored in the next Corporate Plan.

5. I note that all the figures in the Corporate Plan as presented are on a historic cost basis. This has the effect of understating the losses which are expected. On a current cost basis - even on the same assumptions - it might be 1986 before the BL Group broke even. Especially as they move towards viability, BL ought as a matter of course to adopt the more realistic convention. I suggest that we should ask them for next year to draw up Plans showing rates of return on a current cost basis.

/I am sending copies

6. I am sending copies of this minute to the Secretaries of State for Industry, Scotland, Trade and Employment, to Mr Ibbs and to Sir Robert Armstrong.

Peter Jenkins

for (G.H.)

31 December 1981

(Approved by the Chancellor of the Exchequer and signed in his absence).

JU

Ind Pol

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

30 December 1981

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

Dear Mike -

BL: FUTURE STRUCTURE

The Secretary of State for Industry wrote to the Prime Minister on 22 December 1981 about BL: Future Structure.

Done

2 I would be grateful if you could classify this minute "Confidential and Personal".

3 Please accept my apologies for any inconvenience caused to you and to the recipients of this letter.

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

Yours Sincerely
Kim Benson

K BENSON
Private Secretary

cc JV
AD

Ref: A07024

MR. WHITMORE

BL: Future Structure

The Secretary of State for Industry has sent me a copy of his minute of 22nd December.

2. In paragraph 8 of his minute the Secretary of State raises the question of how this subject should be handled in Ministerial discussion.

3. Though the proposals are important, they do not fundamentally change the relationship between the Government and BL, and they do not appear to carry major financial implications (Sir Michael Edwardes is prepared to accept a requirement that these proposals should involve no more Government money and no expansion of Government guarantees).

4. In my judgment it is not necessary to take this matter in the Ministerial Committee on Economic Strategy (E); it will be sufficient to hold an ad hoc meeting under the Prime Minister's chairmanship, with the Chancellor of the Exchequer, the Secretaries of State for Industry, Trade and Employment and Mr. Ibbs.

RTA

Robert Armstrong

24th December 1981

Ind Pol

cc CO Treas
CPRS
Ind
Trade
SO
DR

File

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 23 December 1981

BL

The Prime Minister is grateful for your Secretary of State's minute of 21 December, whose contents she has noted.

I am sending copies of this letter to John Kerr (HM Treasury), Muir Russell (Scottish Office), John Rhodes (Department of Trade), Ian Ellison (Department of Industry), Gerry Spence (CPRS) and David Wright (Cabinet Office).

M. C. SCHOLAR

Richard Dykes, Esq.,
Department of Employment.

CONFIDENTIAL

CONFIDENTIAL

COMMERCIAL - IN CONFIDENCE

Prime Minister (2)

SCOTTISH OFFICE MCS 22/12

WHITEHALL, LONDON SW1A 2AU

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

22 December 1981

I have seen your minute of 11 December to the Prime Minister proposing an announcement giving approval to BL's 1982 Corporate Plan before the Christmas recess.

I have given the interdepartmental Group's report a good deal of thought. There is no doubt in my mind that the political, economic and commercial arguments must lead us to reject liquidation. BL themselves have rejected it because it would not make commercial or financial sense for the Leyland Group or BL as a whole. From the Government's point of view the PSBR costs involved would be very considerable indeed while BL's own proposals would involve no increase in the funding we have already agreed. Moreover, following the recent closure of Talbot's Linwood factory, closure of Leyland Trucks would be catastrophic in both employment and political terms.

In my letter of 3 August to your predecessor I said that I would have great difficulty in justifying action leading to substantial curtailment or complete shutdown of the Leyland Group. The rationalisation announced by Leyland on 20 November will involve the loss of 1,365 jobs at Bathgate (including 850 associated with the proposed withdrawal from tractor production) and 140 jobs at Albion in Glasgow. This has put me under considerable pressure and I am tempted to say that politically I feel we cannot allow demanning to go further. Yet implementing BL's plan for Leyland will involve the shedding of several hundred more jobs at Bathgate after next year.

I am, however, driven reluctantly by the argumentation in BL's Plan to conclude that their proposals offer the only hope of putting Leyland once again on a profitable footing and I therefore support your recommendation. But BL should not accept too readily that further rationalisation is inevitable and I hope you will impress on BL that in implementing their proposals they should allow for the possibility that monitoring may show the measures already announced to be sufficient. In any case, the political implications of further redundancies in 1983 are such that BL should be left in no doubt as to the need to warn us well in advance of any further measures they propose to take.

I have seen your letter of 21 December and given the political sensitivity surrounding the sale of the tractor assets I am reassured to note that the announcement you propose to make will be in general terms, indicating that the progress being made by BL justifies continuing support on the terms announced last January.

Finally, may I repeat my wish to be consulted on developments affecting the Leyland Group and to be involved in any further discussions about the future of BL?

I am copying this letter to the Prime Minister, Geoffrey Howe and Norman Tebbit.

Approved by the Secretary of State
and signed in his absence.

JH 78

CONFIDENTIAL - PERSONAL

Transport

c/c AD JV

(1)

I am worried about this move. I believe it will prevent us from selling off Land Rover and Jaguar. I am anxious to get rid of as much as we can. The proposal puts [illegible] much loss making products into each company. MT

Prime Minister

Content to hold an ad hoc meeting (Chancellor, S/S's for Industry Trade and Employment plus Robt Armstrong and Robin Ibbs), rather than an E meeting? Both CPRS and Policy Unit will be putting in their thoughts on this subject. MCS 4/1

Yes pl

PRIME MINISTER

BL: FUTURE STRUCTURE

You will recall that Keith Joseph consulted you on 24 July about a proposal by Sir Michael Edwardes to split BL into two companies, each to be held directly by the Secretary of State. At that time you decided (your Private Secretary's letter of 31 July) that no view should be expressed on the proposals until decisions on the future of the Leyland Group had been taken.

2 Now that you have agreed, subject to the views of colleagues, to the proposals on the future of the Leyland Group as part of the latest Corporate Plan, the way is clear for us to consider Sir Michael's proposals on future structure. I have discussed these with him on several occasions (including one discussion with all the non-Executive members of the Board, who strongly support the proposals), and he has put the attached paper to me describing his ideas. Briefly he proposes that the Cars Group and Unipart Group should be formed into one company and the Leyland Group and the Land Rover Group should be formed into another. Mr Ray Horrocks should be Chief Executive of the first and Mr David Andrews of the second (these being the groups of which they are already Chairmen); and each would have a non-Executive Chairman chosen from the present Board. Sir

CONFIDENTIAL & PERSONAL

SECRETARY OF STATE FOR INDUSTRY

Austin Bide would probably be Chairman of the Cars/Unipart company.

3 I support Sir Michael's plan. I see some important advantages in it, in particular:

(a) it recognises the existence of two distinct coherent businesses which would be more effectively managed as such, rather than brigaded together in an unwieldy and illogical combine which throws up management problems beyond the capacity of a single Chairman and Board to handle;

We were going for Co's. Yes

(b) it would thus be consistent with our general approach to de-merging and would not frustrate the introduction of private capital into Land Rover and Unipart in 1983 as envisaged by BL;

(c) it would reduce the risk that collapse in one part of the Group would bring down other parts (for instance a collapse in Cars producing financial problems which brought down the Leyland Group side);

(d) it would also insulate the businesses in the Group from the spread of labour relations problems from one part to another (for example Land Rover is still part of the

CONFIDENTIAL : PERSONAL

SECRETARY OF STATE FOR INDUSTRY

same bargaining group as volume cars).

(e) it would lower the public profile of BL, both by disassociating parts of the present group from the BL name and by "depersonalising" its leadership;

(f) it would help to make the best use of the management and Board resources available and also make it unnecessary to search for an adequate replacement for Sir Michael, which would, at the very least, be extremely difficult.

4 I believe these are important benefits. Moreover, I think we should find it very hard to reject the unanimous advice of a notably strong and independent non-Executive Board who might normally be expected to preserve rather than divide their empire.

They are preserving it.

5 There are, however, some risks and disadvantages:

(1) the split would probably be seen as a politically motivated break-up and as a preliminary to more radical closures. We cannot exclude the possibility of renewed strike action in protest, which could itself lead to permanent closure of the volume cars business. Sir Michael thinks this unlikely.

(2) there are operational and marketing links between the proposed groups which cannot be broken quickly: for

CONFIDENTIAL & PERSONAL

SECRETARY OF STATE FOR INDUSTRY

example there is some joint marketing of cars and Land Rover and some exchanges of components. However, there is no necessity for cars and commercial vehicles to be manufactured within a single group (practice varies in the world vehicle industry), and the operational and marketing links can be continued by contractual arrangement where they are justified.

(3) the split will almost certainly require repayment of some £70m of medium term loan stocks. BL, on Hill Samuel's advice, believe this can be refinanced by the two groups without recourse to the PSBR or to Government guarantee, though at some additional interest cost. Sir Michael is quite willing to accept a requirement that the split should involve no more Government money and no extension of Government guarantees.

(4) there are detailed problems to be resolved in relation to such matters as the remaining private sector shareholders in BL.

6 In my view these risks and disadvantages do not outweigh the potential benefits of the structure Sir Michael proposes.

7 Sir Michael has been pressing for some months for an early reply. The detailed technical arrangements are complex and will

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CONFIDENTIAL : PERSONAL

SECRETARY OF STATE FOR INDUSTRY

take a long time to resolve; and if the split is to be made at must be done in good time before Sir Michael himself leaves BL at the end of 1982. He tells me that he will need to make an announcement (for Stock Exchange reasons among others) by about 11 February if the proposal is to proceed, and that he needs a clear month before that to settle immediate details. I propose that, if we decide to agree to his plan, we should ourselves make a Parliamentary Statement at the same time as the Stock Exchange statement, presenting our decision as being in response to an initiative by the BL Board.

8 I imagine you would feel a discussion would be helpful. You might like to consider whether this would best be handled as hitherto by a restricted group of Ministers, preferably early in the New Year; or whether it should be taken by the E Committee in the middle of January (which is a little late for BL purposes).

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

PJ

P J

22 December 1981

Department of Industry

FUTURE ORGANISATION

Objectives

1. To match the key jobs at Board level to the available personnel resources, taking account of the termination of MOE's executive involvement by the end of 1982.

2. To split BL into more manageable units; this is particularly necessary for pay bargaining purposes.

3. To isolate, as far as possible, the effects of a collapse in one of the major parts of the business.

4. To improve the public perception of the company's products by dissociation from the "British Leyland" image.

5. To be consistent with the introduction of private capital into the profitable parts of the business.

Concept

To establish, from the four main businesses which will become legal entities from 1st January 1982, two separate groups (Cars/Unipart and Leyland/Land Rover) which will report separately to the Government and be separately financed - with BL as a whole disappearing completely by the end of 1982. The organisation of these two groups is already reflected broadly in the division of responsibilities at Executive Director level. The announcement of the new organisation would be linked with firm commitment to the subsequent involvement of private equity capital in Land Rover and Unipart.

Timing

With the major determining influences for 1983 and beyond being the 1983 Corporate Plan and the autumn 1982 pay negotiations, it will be important for the new structure and the new Boards to be set up in time to handle these issues, even if the BL grouping is nominally retained until 31st December 1982. Terms of reference for the Boards of the new companies will need to be agreed with the Government before the main part of the Corporate Plan process begins during the summer. Preparatory work on the legal, financial and personnel implications must therefore begin very soon in order to launch the new organisation in mid-1982; and decisions currently being taken in these areas need to take account of the proposals, which requires wider knowledge of them than exists at present.

Composition of new Boards

Proposals for the composition of the new Boards will be put to the Government after consultation with existing Board members, who could form the nucleus of the two Boards. It is envisaged that both Boards would be headed by a non-executive Chairman and have a majority of non-executive members. Existing executive personnel resources are likely to be adequate to fill the senior posts in the two companies, with the possible exception of certain corporate service functions.

Corporate structure

The split of BL into two groups could be achieved technically in a variety of ways. New holding companies could be created or existing ones used. At present BL has one subsidiary, BLMC, which is the parent of all the other BL companies - either directly or indirectly.

The two companies have the following major constraints on their flexibility for restructuring:-

1. Private shareholders

   BL has some 80,000 private shareholders. Any proposals to restructure the group would have to be approved by shareholders in general meeting. There would appear to be no reason why the DOI should not vote on such a resolution

2. Unsecured Loan Stocks and Swiss Franc Bonds

   Any significant restructuring of the business of BLMC Limited would require the relaxation of the restrictions contained in the Trust Deeds for the Unsecured Loan Stocks. Such proposals would require approval by a majority of three fourths in respect of each Loan Stock. This approval would probably only be forthcoming in exchange for repayment at par costing £63 million. Premature repayment of the Loan Stocks would probably also trigger repayment clauses in other loans totalling £24 million.

3. Borrowings

   Most of the UK borrowings of the BL group have been made to BLMC (for technical reasons relating to the Trust Deed). Breaking BL into two groups would require renegotiation of all these borrowings, probably involving repayment and replacement by new loans and short term facilities with appropriate HMG assurances.* Whilst this should be feasible, it will be a very time consuming process.

Subject to removal of the Trust Deed constraints, one way of achieving the split could be for BL Public Limited Company to become the commercial vehicle company and BLMC Limited to become the car company. BL would then sell BLMC to the DOI. Appropriate transfers of subsidiaries between the two would be necessary, and the names of the companies could be changed. This solution would avoid the need to buy out the minority shareholders of BL, which would cost £12.8 million.

*This re-negotiation would have to overcome any disposal constraints in the medium-term loan agreements currently under negotiation.

Implications for injection of private sector capital into Land Rover and Unipart

Creation of two groups should not materially alter the saleabilit of shares in Land Rover and Unipart, and indeed the financial actions described above would help to relax the constraints on major privatisation. Areas of additional, but not major, concern might include:-

a. Relative 'newness' of new holding companies (no 'track record') but getting rid of BL could be regarded as a plus.

b. 'One over two' structure looks difficult to work especially in the context of partial privatisation - but both groups would have flexibility to develop a more balanced structure if necessary.

c. The 'intertrading' issues (see below) between Land Rover and the car companies would have to be settled by mid-1982 to the extent that they required a focal point for resolution.

Intertrading issues

It is not possible in this short paper to set out the intertradin issues in any detail but among the items where long term trading relationships exist are the following:-

1. Land Rover supply of engines and gearboxes to BL Cars.

2. BL Cars supply of castings and components for Land Rover, Range Rover, Freight Rover and Leyland Trucks.

3. Common franchising arrangements in the UK for BL Cars and the Land Rover group.

4. Sale of Land Rover and Truck products to BL Cars overseas subsidiaries in Europe, Australia and South Africa.

5. Unipart handles all Land Rover, Range Rover and Freight Rover parts sales worldwide.

Many of the above should be capable of being established on an 'arms length' basis, with the remainder being replaced by entirely new arrangements. In particular, consideration needs to be given to the separation of the Land Rover Group parts business from Unipart.

Splitting of BL Cars bargaining unit

The new organisation will require the separation of Land Rover Group from the BL Cars bargaining unit. This, together with the similar separation of the Unipart Group, would in any case be desirable to enable private capital to be attracted into these two businesses in 1983. Proposals will be put to the unions during the discussions on the new procedural agreement, with the aim of making the new bargaining units operative before negotiations begin on the next pay round in autumn 1982. Resistance is likely from the unions, who will suspect that splitting the bargaining unit is merely the first step towards selling off Land Rover and other saleable businesses. Transfer of employment contracts from BL Cars to the new companies is already planned for 1st January 1982.

Common services

a. Pensions

All the BL companies employees' are members of BL-wide pension schemes - one for hourly and one for salaried. Division of the schemes into two would present major, but probably not insuperable, actuarial problems. Continuing with a common scheme would not be impossible but would present major practical difficulties relating to policies, negotiations, and trustee board memberships.

b. Other corporate companies

BL Technology, BL Systems and Nuffield Press would have to be allocated to one of the two groups (not necessarily the same one) and sell their services to the other. Aveling Barford could remain in the commercial vehicle group until sold or otherwise disposed of. The Swiss finance company, BLIS, would probably be logically put in the cars group. It might sell its administrative services to the commercial vehicles group.

c. Corporate staff

Certain specialist services exist at Corporate level (Legal, Tax, Treasury, Insurance, Communications, etc.). Although they could work within one group and sell their services to the other, this is probably not a practical proposition (especially for certain operations such as Treasury) and the services would have to be split. Some loss of key staff is inevitable, as a result, but they could eventually be replaced. Splitting of records would present particular problems. It might be possible for headquarters staff of the two groups to remain in the same building to facilitate continuity, but the desirability of distancing the public images of the two groups needs to be further considered before a decision on this is taken.

Alternatives

Judged against the objectives listed at the beginning of this paper, the two-company split has advantages over all the following alternatives:-

1. Complete split of BL into four companies based on 1.1.82. structure. This would leave four separate companies reporting to the Government, would require additional senior executive resources and would (paradoxically) add to the difficulties of attracting private capital into Unipart, since its operational links with the Cars Group require retention of strong managerial links between the two.

2. Further attrition of BL's corporate strength to a nominal structure over the two (or four) independent businesses, in order to avoid the financial restructuring required by a complete split. This arrangement would not overcome the problem of BL's image or localise the financial consequences of the collapse of a major part of the business; and the position of the new BL Chairman would be untenable because he would be seen publicly as accountable for the company's operations without having any effective control.

3. Maintenance of the present organisation, with the appointment of a new Chairman having some executive responsibilities but delegating considerable authority to the two Executive Directors. However, the present organisation is feasible only as a transitional arrangement because of the incompatibility of meaningful central functions (such as Finance) with full accountability of the two Executive Directors. It also fails, like alternative 2, to meet the objectives of improving product image and further isolating the effects of a catastrophe.

4. Preservation of a unified BL, but with a more complete sub-division into four or more subsidiary companies. This again fails to meet the 'image' and 'localisation of collapse' objectives. In addition, it would no doubt be difficult to secure a Chairman/Chief Executive of the necessary calibre, and the present position of one or both of the Executive Directors would be undermined.

Further work

This paper has been written without access to or consultation with the bulk of the relevant technical expertise within BL and must therefore be seen as a very preliminary assessment. We urgently need to involve a wider circle of senior staff, in order to identify the problems involved and develop a precise action plan to overcome them. This we cannot do until we know whether the Government supports the concept.

10.11.81.

CONFIDENTIAL

SECRETARY OF STATE FOR EMPLOYMENT

S/C JV AD

(2)

Prime Minister

To note

MCS 21/12

PRIME MINISTER

BL

1. Patrick Jenkin copied to me his minute of 11 December about BL's Corporate Plan for 1982.

2. I have considered whether liquidation of the Leyland Group's Trucks Division is a practicable option for us, but I do not believe that it is. Apart from the obvious drawbacks of this course, such as the greatly enhanced cost to the PSBR and the large numbers of redundancies - concentrated in areas of very high unemployment such as Bathgate - which it would entail, we should find it very difficult to justify it when Michael Edwardes and his Board, who are not generally regarded as a soft touch, were maintaining that the Leyland Group was still viable, were putting through a radical set of measures to turn it around and were not asking for any more money beyond what we agreed last January.

3. I therefore support Patrick's recommendation that we should approve the 1982 Plan and confirm our previous approval of the funding BL require for 1982-83.

4. I am copying this minute to Patrick Jenkin and to those to whom he copied his.

NT

NT

21 December 1981

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

Nome/ trow Mr

Alty we agree to this

MCS 22/12

From the Minister of State

PS/Norman Lamont MP

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

21 December 1981

Dear Michael

BL'S 1982 CORPORATE PLAN

I have seen your letter of 17 December conveying the Prime Minister's agreement to my Secretary of State's recommendation that the Government should approve BL's 1982 Corporate Plan and announce this decision before the Christmas recess.

In the expectation that the other Ministers concerned will also agree to Mr Jenkin's recommendation, Mr Lamont has asked me to circulate the attached draft of the written statement on BL's plan which he proposes to make on 22 December (or, if necessary, on 23 December) in reply to an arranged PQ.

I should be grateful if you would let me know as soon as possible whether the Prime Minister would be content with the statement.

I am copying this letter, with the same request, to Muir Russell (Scottish Office), John Rhodes (Trade), Richard Dykes (Employment), Gerry Smith (CPRS) and David Wright (Cabinet Office).

Yours

John Alty

JOHN ALTY
Private Secretary

Enc

DRAFT ARRANGED QUESTION

To ask the Secretary of State for Industry whether he will make a statement on BL's 1982 Corporate Plan.

DRAFT REPLY

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 is essentially an updating of the strategy contained in the 1981 Corporate Plan for returning the company's businesses to viability in the medium term, though it includes radical measures to adjust the scale of the Leyland Trucks business to meet the problems experienced in the past year. The funding requirements in the Plan are unchanged.

In his statement to the House of 26 January 1981 Sir Keith Joseph announced that the Government had agreed to fund the first two years of the 1981 Corporate Plan - that is, £620 million in 1981/2 and £370 million in 1982/3 - subject to the regular monitoring of progress in achieving the Plan. In the light of a review of BL's recent performance and prospects, the Government have decided to approve the 1982 Corporate Plan as a basis for the continued funding of the company up to the end of 1982/3. The BL Board and the Government will, of course, continue to monitor progress.

Sir Michael Edwardes has told me that his letter of 26 January which was published with my Rt Hon Friend's statement of that date is still an accurate reflection of the risks which BL face and of the Board's position in the event that their recovery strategy is blown off course.

CONFIDENTIAL

CCs

bcc Duguid
Ingham
Ind Pol

10 DOWNING STREET

From the Private Secretary

17 December 1981

Dear Ian,

BL's 1982 Corporate Plan

The Prime Minister was grateful for your Secretary of State's minute of 11 December.

The Prime Minister is content, subject to the views of colleagues, with the approach proposed by your Secretary of State.

I am copying this letter to John Kerr (HM Treasury), Muir Russell (Scottish Office), John Rhodes (Department of Trade), Richard Dykes (Department of Employment), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

HU

JU847

If we are to have decisions on para 6 by the end of the year the papers will need to be round early next week (on Monday the 16th Dec.) not

← Told Ian Ellison by phone 14/12

CCJV AD

CONFIDENTIAL

Prime Minister

John Hoskyns will no doubt have comments to make early next week.

Mr Jenkin wants to make a statement before Christmas. Will you want a meeting on this, or are you broadly content with his approach, subject to comments from colleagues?

Yes not.

MAP 11/xii

PRIME MINISTER

BL'S 1982 CORPORATE PLAN

An interdepartmental group of officials, under the chairmanship of Mr Gordon Manzie, a Deputy Secretary in my Department, has been studying BL's 1982 Corporate Plan. The Treasury, the Scottish Office, the Department of Trade, the Department of Employment and the CPRS participated in the group. A copy of their report is attached.

2 As you will recall, the Government decided last January to approve BL's 1981 Corporate Plan and to provide funds for the first two years of the Plan (that is, £620 million in 1981-2 and £370 million in 1982-3) subject to the regular monitoring of progress in achieving the Plan. In the case of the Cars, Land Rover and Unipart Groups, the Plan is essentially an updating of the 1981 Plan. However, in the case of the Leyland Group, the BL Board have now put forward, as we requested them last July, a radical review of the various options for the trucks business.

3 The Group's conclusions are set out on pages 24-28 of the Report. Briefly, these are that there is no change in the position or prospects of the Cars and Unipart Groups which would justify a decision not to continue funding the Plan agreed last year for the remainder of the two year period ending in March

1983; the Land Rover Group has suffered a deterioration in the past year but is not facing sufficiently severe problems to justify reconsideration of continued Government funding; with regard to the Leyland Group, Departments other than the Treasury judged that the prospect of a return to profitability by 1983 or 1984 without the need for any extra Government funding beyond that already provided for was reasonable, though subject to substantial risks; the Treasury, on the other hand, judged that the risks and opportunities were more finely balanced. However, taking account of the additional public expenditure and PSBR costs of closure, the recommendation of the Group as a whole is that the Leyland Group Plan should be approved subject to monitoring of progress and a review in the context of next year's Corporate Plan.

4 I agree with the advice of officials and their recommendation that the Government should approve the 1982 Corporate Plan as a basis for the continued funding required by BL in 1982/3.

5 In view of the fact that we agreed last year to two-year funding and that BL are not seeking any extra Government funding to carry out their Plan, I suggest, subject to your views and those of other colleagues, that this matter might be dealt with in correspondence. I have told Sir Michael Edwardes that the Government will do their best to reach decisions on the Plan in

time for me to make a statement in the House before the Christmas recess. Any announcement of the Government's approval of the Plan would, of course, be contingent upon the ending of the current strike at Longbridge. The BL Board would of course withdraw the Plan for the Cars Group if there were no prospect of a satisfactory solution of this problem.

6 I hope to make further recommendations to you and other colleagues by the middle of this month about the highly confidential matter of BL's future structure and the related question of privatisation. Sir Michael Edwardes is seeking decisions on this by the end of the year. Though we clearly need to reach decisions on the 1982 Corporate Plan before deciding on BL's structure, I do not think this need affect the timing of a statement on the Corporate Plan.

7 I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland, Trade and Employment, to Mr Robin Ibbs and to Sir Robert Armstrong.

PJ

P J

11 December 1981

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

BL'S 1982 CORPORATE PLAN

REPORT BY THE OFFICIAL GROUP ON BL

TABLE OF CONTENTS

Department of Industry
2 December 1981

CONFIDENTIAL

BL: 1982 CORPORATE PLAN

REPORT BY THE OFFICIAL GROUP ON BL

INTRODUCTION

1 On 26 January 1981, the Secretary of State for Industry announced the Government's decision to approve BL's 1981 Corporate Plan and "to fund the first two years of the Plan, including the first phase of the LC10 programme - that is, £620m in 1981-2 and £370m in 1982-3 - subject to regular monitoring by the BL Board of progress in achieving the Plan". Ministers accepted BL's arguments that funding needed to be approved for two years rather than the normal one, in order to maintain the confidence of dealers and management up to the launch of the LM10 in spring 1983. In essence, therefore, the question normally facing the Government with BL's Corporate Plan - whether to agree to its funding implications - is not relevant this year, since BL are not asking for more funding than that agreed last year. However, there are questions on the 1982 Corporate Plan which still need to be answered.

2 The two-year funding was agreed to only on the understanding that both the BL Board and the Government would monitor the company's performance closely, and Sir Michael Edwardes and the Board recorded their determination to take whatever decision were necessary to keep BL on the path to profitability. Two questions therefore arise on the 1982 Plan for the Cars, Land Rover and Unipart Groups:

a) how has their performance in 1981 compared with their forecasts;

b) are these Groups, therefore, still on course for profitability?

These questions are addressed below. We have not, on this occasion, assessed the effect of any alternatives to continued funding of these three Groups.

3 The second aspect for consideration this year concerns the Leyland Group (the commercial vehicle business), for which BL have finally prepared a concrete set of proposals. The task on the Leyland Group differs from that on the rest of the Plan. The BL Board have put forward a Plan for the radical restructuring of the Leyland Group as a response to the sharp fall in the truck market in the UK and the lack of competitiveness of British exports, and they have also, at the Government's request, examined the effects of liquidating the truck manufacturing part of the Leyland Group. The Official Group has, therefore, considered the Plan for the Leyland Group in isolation from confirmation of the two-year funding decision, has assessed the proposals for the Leyland Group and the option of liquidation, and has considered whether there are any other options open to the Government.

4 The Report is therefore divided into the following sections - an assessment of the company's performance in 1981, including the Leyland Group; the key features of the Plan for the Cars, Land Rover and Unipart Groups, with financial forecasts for the whole of BL, and the risks attaching to the prospects for these Groups; and a more detailed examination of the proposals for and prospects of the Leyland Group.

ASSESSMENT OF PROFIT SHORTFALL IN 1981

5 BL as a whole is forecast to make a loss of £267m before interest and tax in 1981, £124m worse than projected in the 1981 Plan. Leyland Group performance accounts for most of this shortfall:

Forecast 1981 PBIT compared with 1981 Corporate Plan

£m	1981 Plan	1982 Plan forecast for 1981	Forecast shortfall
Cars	(190)	(194)	(4)
Land Rover	33	4	(29)
Unipart	24	12	(12)
Leyland Group	(1)	(75)	(74)
Other companies and contingency	(9)	(14)	(5)
Total BL	(143)	(267)	(124)

18 A detailed examination by Group of the reasons for this shortfall is contained in Annex A. A summary of the position by Group is below.

Cars Group

6 The small forecast shortfall of £4m arises from a balance of opposing forces: there has been a higher than expected value of sterling, which has had an adverse PBIT effect of £74m, and a worse than anticipated general economic climate. Total adverse factors added up to a profit shortfall of £83m. To balance this, internal performance during the year has been impressive - higher market share, and greater cost and efficiency performance than envisaged even in BL's exacting forecasts. While export volumes and margins were below budget, the positive PBIT effect of these improvements was £79m. Within the overall figures for Cars, the performance of Jaguar has been turned round from a declining UK market share and exports, and losses of £2m a month in the first half of the year, to budget levels of UK market share, greatly increased exports to the USA, and breakeven on a monthly basis.

Land Rover Group

7 Of the £29m shortfall against budget, exchange rate factors clearly account for £12m. They also probably contribute to the £15m shortfall attributable to a decline in export volumes, though this principally reflects severe competition from the Japanese in third markets. UK market share of Freight Rover, the light commercial vehicle (Sherpa) subsidiary of Land Rover, has fallen because of lack of model competitiveness against the Ford Transit and Japanese imports; this has had a £7m PBIT effect. Again, cost performance and efficiency improvement have served to offset adverse factors by some £11m. In addition, PBIT is now forecast, on the basis of very good results in September, to total £8.3m for 1981, double the level noted in the Plan. Contributing to this is an improvement in the market share now being achieved by Freight Rover.

Unipart Group

8 The shortfall of £12m is a direct result of the recession; this has resulted in dealer de-stocking which could only partially be offset by cost performance.

Leyland Group

9 The Leyland Group's profit shortfall in 1981 is estimated at £74m. Although performance was severely affected by the collapse of the market for trucks in the UK, a reduced market had already been forecast, and lower than estimated demand only accounts for £8m shortfall. Far more important was the different mix of models sold, dealer de-stocking, and lower margins arising from exchange rate factors, which together account for a shortfall of £29m. Unlike Cars, however, a major reason for the shortfall lies in internal factors - a decline in market share, in export volumes, and in cost performance - which accounted for half the total shortfall.

KEY FEATURES OF THE PLAN FOR THE CARS, LAND ROVER AND UNIPART GROUPS

Projected financial performance and funding implications

10 As in the 1981 Plan, Cars Group is projected to achieve break-even before interest and tax in 1984. The Unipart and Land Rover Groups are expected to show increasing profitability over the Plan period. The Leyland Group is still forecast to return to profit in 1982:

PBIT - £m

	1980	1981	1982	1983	1984	1985	1986
Cars Group	(297)	(194)	(122)	(31)	30	64	97
Unipart	14	12	13	25	34	40	49
Land Rover	27	4	12	32	39	58	70
Leyland	(30)	(75)	9	58	134	163	189
Other companies/ consolidation/ contingency	(8)	(14)	(57)	(57)	(49)	(54)	(48)
Total BL	(294)	(267)	(145)	27	188	271	357

Note: the large negative sums appearing under the heading "other companies/consolidation" are mainly due to a contingency held centrally by BL against non-achievement of the forecast PBIT for the Leyland Group. This, and the Leyland Group financial forecasts generally, is discussed in more detail in paragraphs 45 to 48 below.

11 Since the Plan was submitted, BL have revised their forecast PBIT for 1981 for the Land Rover Group to £8.3m as a result of increased sales in September; and for the Cars Group to £183.1m, as a result of improved cost performance levels. These revised forecasts seem robust. Although the trend of financial performance shown in the above table is generally consistent with the 1981 Plan (apart from the obvious exception of the Leyland Group), projected profits over the period 1981-5 for BL as a whole are some £445m lower in the 1982 Plan. The breakdown of projected shortfall is as follows:

PBIT better/(worse) than in the 1981 Plan

£m	1981	1982	1983	1984	1985	Total 1981-5
Cars	(4)	(6)	(25)	(7)	(30)	(72)
Unipart	(12)	(16)	(12)	(9)	(9)	(58)
Land Rover	(29)	(31)	(27)	(37)	(33)	(157)
Leyland	(74)	(19)	14	76	84	81
Total BL	(124)	(126)	(107)	(29)	(59)	(445)

Note: the discrepancy between the total of the shortfalls for the four Groups above, and the total BL shortfall, is accounted for by the central contingency on the Leyland Group, and other (mainly non-mainstream) companies.

12 The shortfall both in 1981 and thereafter is concentrated in the Land Rover and, relatively speaking, Unipart Groups. Lower

profits are forecast for Cars, Unipart and Land Rover over the Plan period than in the last year's Plan mainly because a more pessimistic view has been taken of exchange rates and levels of UK demand and therefore of sales volumes and pricing levels. This worse view of the economic conjuncture is expected to be only partially offset by greater cost reductions than envisaged in the 1981 Plan. The marked improvement for the Leyland Group is accounted for by the radical changes proposed for the Leyland Group compared with the interim basis of the 1981 Plan.

13 However, in contrast, over the Plan period cash outflow is held broadly at the levels forecast in the 1981 Plan:

1982 Plan cashflow forecasts

£m	1981	1982	1983	1984	1985	1986
Cars	(376)	(334)	(219)	(94)	(29)	2
Unipart	(20)	2	1	8	17	28
Land Rover	(28)	(40)	(4)	20	39	45
Leyland	(84)	(97)	(10)	16	69	93
Total BL	(546)	(557)	(305)	(111)	30	88

1982 Plan cashflow forecasts: better/(worse) than 1981 Plan

£m	1981	1982	1983	1984	1985	Total 1981-5
Cars	49	46	(2)	48	28	169
Unipart	4	10	(7)	(11)	(2)	(6)
Land Rover	12	(12)	(2)	(15)	(20)	(37)
Leyland	15	(20)	27	17	57	96
Total BL	51	(41)	(16)	(6)	2	(10)

The holding of the cash outflow shortfall to £10m has been achieved mainly by further improvements in working capital both from increased effort in cutting inventory, and from the effects of the lower volumes now projected. A further, lesser, factor has been the lower capital expenditure (£200m over 1981-5) than forecast in the 1981 Plan. No major programmes have been dropped in achieving this capital expenditure reduction; which rather follows BL's progress this year and last year in negotiating lower prices from suppliers. As BL have in 1981 on the whole proved very capable of controlling working capital, they should be able to achieve the savings needed to offset the greater losses.

14 The company does not in the 1982 Plan request any funds in excess of those envisaged in last year's Corporate Plan (£620m in 1981-2 and £370m in 1982-3). This Plan does, like last year's, identify a need for a further £150m equity during 1983-4 though,

like last year, no formal request is made for this to be provided by Government. In January 1981, the then Secretary of State for Industry, while not excluding the provision of this by the Government, said that he hoped that BL would be able to raise this additional £150m from the private market.

15 In the 1981 Plan, BL proposed negotiating £400m new medium term loans from the private sector, £200m for 1981 and £100m each for 1983 and 1984. Negotiations on these loans are well advanced and the 1982 Plan contains no different proposals for private sector loan finance.

Product and manufacturing strategy

16 The stretegy outlined in the 1982 Plan for the Cars, Unipart and Land Rover Groups is essentially unchanged from that presented in the 1981 Plan. The key points are set out below.

17 The proposals for the Cars Group constitute a product-based revival.

a) The phasing out of old models and introduction of new models continues so that in 1984 the company will have a streamlined product range of three model families. This process is well advanced, with the ending of production of the sports cars, Maxi and Dolomite and introduction of the Metro and Acclaim already completed by the end of 1981. In Jaguar, the initial emphasis is on improving quality and reliability to re-establish its market position before the introduction of a new model in 1984.

b) Complementary to this model strategy is the rationalisation of plant facilities. This process will be virtually completed in 1982 with the (already announced) closure of Solihull, Speke No 1, Coventry Engines and CAB2 at Longbridge, and the disposal of Alford and Alder and Rearsby Components. It was envisaged in the 1981 Plan that Solihull would close in 1985.

c) The effect of model strategy and plant rationalisation is to achieve a coherent manufacturing and marketing base by the mid-1980s as follows:

Plant	Models and launch dates		Late 1980s product range
Longbridge	Metro	Oct 1980	small car family
Cowley	Acclaim	Oct 1981	small car family
	LM10	spring 1983	medium/executive family
	LM11	spring 1984	medium/executive family
	LM14/XX	1985	medium/executive family
Browns Lane	Jaguar XJ40	early 1984	luxury family
	XJS	continues	luxury family
	XJ41	to be decided	luxury family

d) Accompanying the reduction in product range will be a reduction in the range of engines and gearboxes produced in-house (see para 20 below). Outsourcing components such as gearboxes and the high degree of commonality designed into the new mid-car family will enable the company to reap economies of scale and hence, with the greater bargaining power, reduce the costs of materials.

e) Collaboration will also enable the Group to benefit from economies of scale and BL have announced their intention to collaborate with Honda in production of the LM14/XX executive car (see para 20 below).

f) The programme of manpower reductions will be almost complete by the end of 1982. Together with more efficient manufacturing facilities and working methods and increased output this is projected to improve productivity as follows:

	1980	1981	1982	1983	1984	1985	1986
Manpower (000)	74	59	51	50	50	50	50
Production (000)	417	450	437	480	518	574	585
Vehicles/man/year	5.6	7.6	8.6	9.6	10.4	11.5	11.7

To the end of September this year, productivity has averaged 7.43 vehicles/man/year, a shortfall of 0.45 against budget. Given BL's success in achieving virtually all the large increase forecast for this year, and the more modest increases for later years, these forecasts look achievable.

g) Capital expenditure, forecast in the 1982 Plan to total £145m in 1981 (some £27m less than forecast in the 1981 Plan) will continue at about the same yearly rate over the Plan period:

Capital expenditure - £m

	1981	1982	1983	1984	1985	1986
Cars	145	163	185	153	164	175

The savings in 1981 and thereafter represent BL's revised assessment of their ability to negotiate keener prices from suppliers.

18 The proposals for the Land Rover Group are best described under the two main operating divisions: Land Rover Limited, which manufactures Land Rovers and Range Rovers, and Freight Rover, which manufactures the Sherpa van.

a) Land Rover Limited plans to maintain its share of the world market for the four-wheel drive sector with a programme of product and facilities renewal. The Stage II Land Rover model is to be introduced in 1982 and a V8 diesel engine in 1983.

Productivity improvements will be achieved by the use of robots in manufacture of the Stage II model and the application of new arrangements for assembly which have already led to improvements in productivity on current models.

b) Land Rover Limited is nearing the end of a period of heavy capital expenditure. £180m has been and will be invested in the new production facilities, and this programme carries the main capital expenditure burden through the Plan period. The virtual completion of the Stage II programme by 1983, with the accompanying increased sales from the revised model, is a major contributor to the improved PBIT and cashflow position evident from that year.

c) Capital expenditure is forecast as follows:

£m	1981	1982	1983	1984	1985	1986
Land Rover Ltd	20	32	29	25	25	20
Freight Rover	8	12	9	3	1	5

d) Concentration of management effort and a product-led revival are the key elements of the drive to restore Freight Rover's competitiveness. The emphasis on quality and marketing, together with the introduction of a thoroughly facelifted Sherpa van in 1982 and the new MT210 in 1983, are designed to revive Freight Rover's declining market share. The product plan will enable Freight Rover to offer a wider range of vehicles and this is considered essential if inroads are to be made into the fleet market.

e) The Plan contains justified expectation that Japanese imports in the light commercial vehicle market will be restrained from 1982 under either an industry or a Government-to-Government agreement.

19 Unipart's fortunes are currently largely dependent on the performance of the Cars Group. Emphasis is therefore placed on expanding the business of manufacturing parts for non-BL models ("all-makes") and on introducing an 'arms length' relationship with other Groups of BL. Component manufacturing by the SU Butec Division will be rationalised by withdrawal from certain product lines.

Collaboration

20 Collaboration and increased outsourcing of major components are seen as vital to keep BL competitive because they enable the sharing of the technological development workload and enable the company to benefit from the economies of larger scale production. The following arrangements were concluded in 1981 or are currently in their final stages of negotiation:

a) Collaboration with Honda on Triumph Acclaim, launched October 1981.

b) Collaboration with Honda for the joint design and development of a new executive car (LM14/XX) to be produced in Japan and UK and sold worldwide, and involving, perhaps, the manufacture by BL of some parts for Honda's use.

c) Use of Volkswagen gearboxes in LC10 family (all gearboxes are now to be bought from outside suppliers).

d) Use of Vancini Motore (VM) engines in Light Medium Cars and Jaguar products.

e) Perkins/Land Rover development of diesel version of BL's V8 engine.

21 Further collaborative deals being actively explored are:

a) Marketing/distribution collaboration with Honda in Europe.

b) Jaguar/BMW joint sourcing of components.

c) Jaguar/Ford marketing collaboration in Europe.

d) Perkins/Light Medium Cars development of diesel version of BL's 'O' series engine.

22 BL have not yet been able to conclude the wide-ranging collaborative agreement with one company (or perhaps two) which we have identified in previous years as carrying the best hopes for the continued future of the volume car business and of removing its dependence on the Government as quickly as possible, since there seems to be little, if any, prospect of an outright purchase of the volume cars part of BL. However, the Official Group considers that BL is continuing to explore collaboration as a priority, and that the current proposals are to be welcomed as a major example of 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.

Disposals

23 BL's policy is to dispose of non-mainstream activities. In 1981 Alvis, Prestcold, parts of Aveling Barford, certain trade investments, and properties were sold for a total of £53.1m This compares with £25.5m raised from sales in 1980 and with the £40m which the 1981 Plan projected would be raised in 1981. The company hopes to dispose of the remainder of Aveling Barford as well as Coventry Climax and Leyland South Africa but does not expect proceeds from the sale of these, together with vacant industrial properties, to exceed £25m. A considerable write-down against book asset value has to be expected if the sale of loss-making companies such as Coventry Climax is to be achieved.

Introduction of private capital

24 It is BL's intention to develop the whole business so as to attract private funds into it. To this end, much preparatory work has been done in establishing four separate business activities - Cars Group, Unipart Group, Leyland Group and Land Rover Group - to enable funds to be attracted into those activities which are performing well. These four Groups will be established as separate Companies Act companies on 1 January 1982.

25 As to timing, the 1982 Plan states that "it is planned to seek private sector capital for Land Rover and Unipart - consistent with retention of management control by BL - at the earliest practical opportunity but this is unlikely to be before 1983". The company do not believe that performance of Land Rover and Unipart will be sufficiently strong to enable a partial flotation before 1983 and have been advised that the sale of shares would not be a practical proposition until at least one year's audited results are available, which will not be until early 1983.

26 BL have identified several risks to the achievement of their objective of attracting private capital into Land Rover and Unipart in 1983:

a) failure to reach agreement on the restraint of Japanese light commercial vehicle imports (the risk of this has been removed, at least for 1982, by the SMMT/JAMA agreement which has just been concluded);

b) maintenance of high interest rates, causing further dealer de-stocking of parts;

c) a major setback in the recovery of the Cars Group, affecting demand for parts;

d) an outcome unfavourable to Unipart to the current Monopolies Commission investigation.

Appraisal of risks (Cars, Unipart and Land Rover Groups)

27 In order to identify as precisely as possible the risks attaching to the achievement of profitability by BL, we have drawn a crude division between "internal" and "external" risks - the distinction being between risks that are, or are not, in broad terms susceptible to control by BL. This division can be rather hard to sustain, eg sales volumes may be lower than forecast because of a fall in market size owing to recession rather than any failure in the inherent attractiveness of BL's products. However, it does allow a judgement to be made about future performance.

28 External risks consist of risks arising from the external economic environment in which BL operates, and risks arising from competitors' activity.

a) <u>The economic environment</u>: most important here are world and UK activity rates, the exchange rate, and competitiveness. Although we considered last year that BL's assumptions on activity, exchange rate and inflation were broadly in the centre of the range of possibilities, and, indeed, were slightly more pessimistic than independent forecasts, the outturn was less favourable than forecast in several respects. The economic assumptions underlying BL's new Plan have been considered carefully and our conclusion is that on this occasion these assumptions tend to be slightly more pessimistic than the Treasury forecasts. For example, BL assume a rather slower growth of output and expenditure, and higher earnings and consumer prices. They also forecast a stronger effective exchange rate. However, they seem to have an optimistic view on general input prices and hence costs (but it should be noted that BL see this as an aspect within their control). Also, in the Corporate Plan, interest rates fall more steeply than assumed in the Treasury. A sensitivity analysis of the effect of representative changes in the economic environment on PBIT, cash flow and return on assets employed is in Annex B. This suggests that, on a purely arithmetical basis within this range of forecast economic assumptions, the profit forecast for 1982 could vary from a loss of £30m to a loss of £275m (main forecast is for a loss of £145m). In fact, the worse set of assumptions would require radical corrective action, and a re-assessment of BL's prospects and of its appropriate size, and there would be considerable doubts over the ability of any part of BL to survive. Conversely, the increase in demand implied by the more favourable assumptions would suggest that existing capital expenditure and working capital requirements would be insufficient; this part of the Plan would require revision. As one might expect, forecasts for an individual company such as BL are highly sensitive to changes in both general economic activity and to changes in the market environment.

b) <u>Competitor activity</u>: the risks here arise from three main sources:

i) the first arises from the pricing strategy adopted by overseas manufacturers in the UK, and the extent to which they can benefit from the exchange rate. Whilst the exchange rate has fallen, the pound remains strong against several European currencies and hence some risk still remains.

ii) The second source is the continuing differential in car prices in the UK and Europe. In fact the differential now (at about 25% overall on BL's estimate) is much lower than the 45% which they calculate was reached earlier this year as a direct result of the strength of sterling. BL expect the differential to fall gradually to around 12% by 1986, a trend which they will follow by increasing prices only below the rate of inflation. A markedly more abrupt fall in relative prices than the progressive reduction BL are forecasting would seriously affect their profit forecasts. The risk of a more abrupt fall comes mainly from a decision by importers to reduce their UK prices as a result of adverse public reaction, which might be stimulated further (and hence increase the risk) if enquiries by the Office of Fair Trading or the European Commission were to reveal anti-competitive practices attempting to sustain the differential.

iii) The third risk arises from Japanese activity - both on cars and light commercial vehicles in the UK, and on trucks and four-wheel drive vehicles in export markets. There is still some uncertainty about continuing restraint of Japanese imports and about the alternative (for the Japanese) of manufacture in the UK: BL have assumed (and we accept) that Government-to-Government action would replace the industry talks on both cars and light commercial vehicles if the voluntary restraint agreement fails, and so the risk from this source may now be less serious. As for inward investment, the revised timescale of the proposed Nissan project pushes any effect on BL well outside the Plan period. More serious is the effect of Japanese competition overseas, in particular as the Land Rover expansion programme nears completion and the company's traditional capacity restraint is removed as the new investment programme is completed. BL note that there is no reason to suppose that the Japanese threa abroad will do anything but grow, and have reduced total sales volumes accordingly (compared with the 1981 Plan). Failure to achieve sales volumes - overseas in the case of the Land Rover itself, and in the UK in the case of Freight Rover - remains, however, the biggest single risk for the Land Rover Group.

29 Internal risks are those which fall under BL's more or less direct control. These subdivide - for the purposes of this discussion at least - into product-related risks and industrial relations.

a) Four major product-related risks were identified last year: reliability, design, dealer network, and insufficient capital expenditure. These risks remain this year, though offset to some extent by the fact that BL are well into their model replacement programme, that the problem of quality control is being tackled in all areas (and is helped by new models and modern manufacturing facilities), and that increased market share and new models improve dealer morale and profits (though the weakness of the dealer network in Europe remains). A further factor, not identified last year, is BL's continuing determination to keep supplier costs increases below the rate of inflation. However, BL take a relatively optimistic view of supplier costs, and there is a risk that they will not be able to absorb those unanticipated cost increases which they are unable to avoid. Finally, the risk remains that BL may have pruned their total capital expenditure requirements to an excessive extent (without cancelling any major programmes) over the Plan period in their determination to keep cash outflow within the forecasts of last year's Plan. This risk is heightened by the deterioration in forecast profits compared with last year's Plan (see para 11 above).

b) Industrial relations: the Official Group last year identified this risk as substantial. In the event, there were minor disputes (such as the one affecting the Acclaim line in September) but the overall effect on working hours was minimal - 0.55% of working hours were lost in the nine months to September. The most serious outbreak of strike action has occurred over the Cars pay settlement, although only two days of strike action occurred, and more recently over the "tea break" dispute at Longbridge. These two recent disputes illustrate the range of risks under this heading - from major all-out strike over a matter such as pay, through continual minor stoppages of production, to a continued feeling of bitterness at the handling of industrial relations. The risk of a major strike over pay remains real: BL still need to reduce their unit costs to competitive European levels - despite major increases in productivity - and there has been no change in BL's determination to keep actual wage increases below the rate of inflation. There is, however, still potential for earnings increases under the incentive scheme - this has raised average earnings at BL Cars by 13.5% over the past year, and new models will enable total average pay increases to exceed basic pay increases, though perhaps at a lower level than hitherto. However, the Group considers that the threat from the other sorts of dispute - continued minor stoppages and bitterness - could be as serious. The former could lead to a general decline in public and dealer confidence in the company, which would in 1982 not only have an immediate effect on market share but would also weaken the launch platform for the LM10. The latter would prevent the wholehearted cooperation from the workforce which remains essential to BL's recovery and return to viability. The company does, however, emphasise the importance it attaches to adopting a less abrasive industrial relations "style" in the aftermath of the recent pay dispute, and a commitment to greater workforce consultation is written in to the agreement ending that dispute.

30 In summary, the Official Group considers that:

a) The BL main case forecast, although broadly in line with other forecasts, does have some risks particularly relating to costs and prices and to the essential uncertainty associated with forecasting the exchange rate;

b) the risk attaching to competitor activity, and hence market share or margins is serious - in particular the threat from a more rapid than anticipated unwinding of the price differential in the UK market, Japanese imports of light commercial vehicles (despite the prospects for their restraint) and the continuing Japanese competition for Land Rover in third world markets;

c) the risk arising from product related factors remains though is reduced in certain respects (design, dealer confidence, reliability);

d) the most serious risk still attaches to the industrial relations climate, in the Cars Group in particular, and this must remain the greatest threat to the achievement of the forecasts for 1982 at least. On the other hand, the assurance given last year by Sir Michael Edwardes on behalf of his Board remains that the Board would withdraw the Plan if (inter alia) the workforce failed to cooperate in its implementation.

THE LEYLAND GROUP PLAN

Background

31 At the end of 1980, it became apparent that the prospects for the commercial vehicle business (now called the Leyland Group) had deteriorated badly from the company's position of traditional profitability. The UK truck market had collapsed in the second half of 1980, and the Group was forecast to make heavy losses in 1981. The BL Board was not satisfied with the Leyland Group management's response to the situation facing the Group, in particular since there was no realistic hope in their plans of the Leyland Group either meeting short term cash commitments or of restoring the business to viability in the longer term. Specific aspects of the management's planning which were open to question were truck product policy at the light end of the range, use of installed capacity, and collaboration. The BL Board therefore put the 1981 Corporate Plan for the Leyland Group on ice while it brought about a change of leadership for that part of the business. In January 1981, following the departure of Mr David Abell, a new management team took over, under the direction of Mr David Andrews (Executive Vice Chairman of BL). The team had two priorities: to tackle the serious deterioration in the trading position of the UK truck and bus business, and to prepare a revised 1981 Corporate Plan.

32 The new team submitted, in the summer of 1981, a revised Corporate Plan for the Leyland Group. However, the BL Board presented this to the Government only as an operating base for 1981, since the Board continued to have reservations about the future for Leyland Trucks. These reservations were echoed by officials who considered the Plan, particularly in relation to market and market share prospects and to whether the proposals for cost reduction and facility rationalisation were sufficiently radical. Ministers agreed that, while the Plan as presented could be accepted as an operating base for the remainder of 1981, BL should be asked to submit, as part of the 1982 Corporate Plan, 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 summer 1981 Plan was based (if BL still wished 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 could be sold.

33 The current Plan, therefore, forms the first concrete set of proposals for the Leyland Group since the 1980 Corporate Plan submitted at the end of 1979, and is the first to address itself fully to the future of the Leyland Group in the changed economic circumstances. The BL Board and the Official Group have therefore paid special attention to the Leyland Group part of the 1982 Plan.

Facilities, models and manufacturing method

34 The Leyland Group Plan proposes a radical realignment of facilities, manpower and manufacturing method to match the current and forecast reduced demand for trucks. The main aim of the Plan is to bring the Group's cost base down to realistic levels in the light of these forecasts. Most of the actions required to achieve this were announced publicly on 20 November 1981 and will take place by the end of 1982; only some, involving collaboration, remain to be settled. The basic strategy underlying the Plan is the retention of a full truck product range - which is seen as vital to protect the dealer and fleet network - and collaboration on or outsourcing of major components.

35 Leyland Trucks will concentrate all its activities onto three sites - the Leyland plant in Lancashire, Albion in Glasgow and Bathgate in West Lothian, with some reduction in the size of the facilities at each plant. The plant at Guy, Wolverhampton, will be closed. For the first years of the Plan, Leyland and Bathgate will both continue to assemble trucks and to manufacture engines; however, by the later years it is planned that Leyland concentrate on truck assembly, and Bathgate on engine assembly with some engines either

completely bought-out or the subject of major collaboration. Albion will from 1982 concentrate on axle manufacture, and all gearboxes will be bought from outside suppliers (mainly ZF of West Germany). The main change is therefore in the level of integration proposed for the future, and the way in which Leyland Trucks proposes to buy into the economies of scale enjoyed by specialist engine and gearbox manufacturers. This seems a logical step for a company the size of Leyland Trucks.

36 There is no major change proposed for Leyland Parts. The only change of note for Leyland Bus concerns its greater freedom from Leyland Trucks, which BL are pursuing in order to ensure that, if Leyland Trucks were to be put into liquidation, the bus manufacturing operations would have an opportunity to continue independently. To this end, parts of the Leyland site are to be transferred to the management of the Bus division. This is a welcome move in management rationalisation and autonomy.

37 Model strategy for Truck and Bus is little changed, because of Leyland's conviction that a full range of models is necessary. They have, however, concentrated on reducing the number of different models and cabs and hence the complexity of manufacture, and have decided to end tractor assembly (Bathgate).

Manpower and productivity

38 A major aspect of the drive to reduce costs comes in manpower: 4,100 employees, 25% of the Leyland Trucks workforce, will be made redundant in 1982, and a further 2,600 employees will be transferred to the Bus or Parts divisions as part of the move to make them more independent from the Truck division. These major reductions feed through into productivity gains only slowly because of the continued forecast recession in the truck market in 1982 and the forecast low share for that year, but in 1983 value added per £ labour cost and value added per man are forecast to exceed the 1977 level (at constant prices) and by 1986 to have reached levels competitive with productivity currently achieved by competitors. This increase in productivity, though marked, should be achievable if the realistic forecast sales volumes are achieved, since two-thirds of the productivity gain arises from lower manpower although, as with the rest of BL, productivity is dependent on good industrial relations during the difficult period of restructuring. However, it must be noted that from 1984 to 1986 Leyland Trucks will only equal current levels of productivity in competitors, and may therefore still be "behind" if competitor companies improve their productivity in the interim to any extent.

Sales volumes, market size and market share

39 The UK truck market size fell dramatically in 1980 and 1981, and a major criticism of the two most recent Plans prepared by the Leyland Group has been their assumptions on the recovery of market

size. The current Plan is markedly more cautious in this respect:

(000)	1978	1979	1980	1981	1982	1983	1984	1985	1986
1982 Plan	70	80	61	46	40	52.5	65	70	65
Summer 1981 Plan	70	80	61	46	50	60	75	70	-
Main 1981 Plan	70	80	61	66	72	78	71	65	-

The Group considers that the current profile represents a plausible forecast for the recovery of the truck market: the very low forecast for 1982 is similar to that of the SMMT, the trade association.

40 Also worrying in earlier Plans were UK market share forecasts, and again these have been revised downwards to take account of model availability:

(%)	1978	1979	1980	1981	1982	1983	1984	1985	1986
1982 Plan	19.3	17.3	17.3	16.4	15.8	15.8	19.0	21.1	21.6
Summer 1981 Plan	19.3	17.3	17.3	17.7	18.6	18.5	19.0	21.6	-
Main 1981 Plan	19.3	17.3	17.3	19.2	18.6	18.6	20.1	22.7	-

In market constrast to earlier projections, BL have taken a much more cautious view of their market share in 1982 and 1983. The main reason (other than caution) given by BL for the continued low share in 1983 and the - on the face of it - surprising forecast increase in 1984 is the launch of a new light truck (the high volume end of the range) only at the end of 1983 and the early run-out of part of the existing light truck range in 1982 for emissions standards reasons. It is difficult to assess the effect this new model will have on market share, but we are confident that in other respects the market share projections are now more realistic than hitherto.

41 These projected trends are reflected in the overall sales volumes in this Plan, which (including revised export forecasts) are some 40% below the levels forecast in the main 1981 Plan. Overseas sales volumes are forecast to do little more than remain steady, and if anything there must be an opportunity for increase, rather than a risk of failure, in this forecast. One result of any unexpected increase would be to improve productivity at a faster rate than forecast. However it should be noted that these volumes probably represent the lowest level at which even the revised cost-base of Leyland Trucks can be supported; there is therefore little room for downward revision.

Collaboration

42 Collaboration between volume truck manufacturers has become common practice among European manufacturers over the last few years,

although one of these groupings - Iveco - now seems to be breaking up. Although willing to participate in this general restructuring of the business, Leyland Trucks has not so far concluded any joint venture or more extensive agreement with another truck manufacturer (despite efforts in Europe and the USA). The company has therefore considered other ways in which it can compete with the largest European manufacturers - Daimler-Benz and Iveco, who enjoy much larger volumes. Its response is to concentrate its own resources on vehicle design, development and assembly and turn to collaboration to provide major components at competitive prices.

43 As a result of this policy, Leyland Trucks has decided to purchase all its gearboxes, mainly from the German firm ZF but also from the American-owned Eaton (as opposed to assembling a ZF gearbox at Albion); and to engage in major collaaboration on engines. Of the four existing Leyland Trucks engines, one will be replaced by a bought-in engines, two by collaboration and joint assembly with Cummins and another manufacturer (yet to be identified) and one by a mixture of an existing Leyland engine and a bought-in unit. Negotiations with Cummins are at an advanced stage, with final agreement expected within a few months, and indicate Cummins' confidence in the future for Leyland Trucks; other negotiations are being accelerated. The agreement with Cummins will involve Leyland Trucks manufacturing components for engines assembled elsewhere by Cummins, as well as for those assembled by Leyland at Bathgate; the benefit in economies of scale will be marked.

44 Although it is disappointing that Leyland Trucks have been unable to enter into a joint venture on assembly with another European manufacturer, and thus achieve the necessary economies of scale, the Official Group believes that in the collaboration and purchasing strategy in hand, Leyland Trucks have identified a suitable alternative route which should enable them to benefit from similar economies of scale on the most volume-sensitive and research and development-intensive units. The Group considers that negotiations should proceed with despatch.

Financial forecasts and funding implications

45 This aspect is discussed in general terms in paras 10 to 15 above, in the context of BL as a whole. In more detail, key aspects of the financial projection for the Leyland Group are as follows:

Leyland Group: summary financial projection - £m

	1981	1982	1983	1984	1985	1986
Revenue	735	919	1073	1383	1580	1784
PBIT	(75)	9	58	134	163	189
Extraordinary costs	39	-	3	2	-	-
Total earnings (loss)	(144)	(17)	19	84	110	127
Working capital (increase/(decrease))	(96)	64	16	42	40	41
Capital expenditure	69	57	61	76	55	51
Net cashflow: in/(out)	(84)	(97)	(10)	16	69	93
PBIT/assets employed %	(19)	2	12	26	29	31

It is apparent from these that the 1981 cash outflow has been held down only by the decrease in working capital which has arisen as a result of the drive to reduce inventory to a level commensurate with sales. It is not possible to continue this to the same extent in 1982. In addition, total loss of 1981 is inflated by £39m of provisions for closures which take effect in 1982. The primary reason behind the improved 1982 profit position is the marked improvement in fixed costs, which fall from 25% of sales revenue in 1981 to 18% in 1982 as a result of the radical action on fixed costs noted above (paras 34 to 37).

46 The cost improvements are forecast to feed through in later years to an extent which will offset the worse economic circumstances forecast in this Plan (see Annex B) and will produce greater forecast profit in later years of the Plan than in the main 1981 Plan.

£m better/(worse)

	1981	1982	1983	1984	1985	Total 1981-85
PBIT	(74)	(19)	14	76	84	81
Total earnings	(102)	19	9	69	80	75
Net cashflow	15	(20)	27	17	57	96

47 However, the position of Leyland Trucks is disguised by the various very profitable subsidiary companies in the Leyland Group (Ashok Leyland in India, Leyland South Africa and Parts). Key figures for Leyland Trucks itself are:

Leyland Trucks: summary financial projection - £m

	1981	1982	1983	1984	1985	1986
PBIT	(105)	(54)	(18)	32	41	43
Total earnings	(160)	(63)	(29)	21	32	35
Net cashflow: in/(out)	(40)	(86)	(33)	5	29	40
PBIT/assts employed %	(49.1)	(32.4)	(10.1)	16.9	20.3	21.7

The turnaround in prospects which this shows, while still a formidable task for the management, looks more plausible for Leyland Trucks than might have been thought from the total Leyland Group figures.

48 So far as Government funding is concerned, in the 1981 Plan BL provisionally allocated £100m in 1981 and £50m in 1982 for the Leyland Group. The Board and management of BL reserve the right, within the overall Government funding, to re-allocate equity amongst the various business groups as necessary, in particular to provide each group with a satisfactory opening debt:equity position and to allow the introduction of private capital in 1983 to Land Rover and Unipart. However, the radically revised Plan for the Leyland Group does not require funding from Government above the levels already agree

Appraisal of risks

49 As with the other parts of the Plan, these can be divided into internal and external risks. The external risks - the general

economic conjuncture - do not differ in many respects from the analysis on the other Groups (paras 27 to 28 above). A stronger exchange rate would have serious consequences for competitiveness in overseas markets, and BL would be forced either to bear the effect on margins or to lose volume. Volume would also be lost if the UK market size did not recover even to the lower limits BL are forecasting. Probably the greatest area of risk in the Plan is to volume: these are now projected at such a low level that it must be questionable whether the strategy of a full model range could be sustained in the face of lower volumes than are forecast. Although BL does face competition from imports to the UK of commercial vehicles, these are almost exclusively from a European cost base since a voluntary agreement excludes Japanese trucks (other than light commercial vehicles) from the UK market.

50 The main risks to the achievement of the Leyland Group Plan, and in particular to the Leyland Trucks forecast, lie in internal factors. Model strategy is not seen as a great problem since Leyland Trucks is well into its model replacement programme (which will be completed in 1984 with the lightest model) and has achieved a reputation for quality and design with the existing new models in UK and overseas markets. (The reason for the continuing low market share into 1983 is the lack of a light truck model, which will be launched at the end of 1983, rather than a judgement about the attractiveness of other models). The risks in the Official Group's view lie in the scale of the recovery required in Leyland Trucks in physical terms - the fixed and variable cost reductions and the manpower reductions - and in a loss of labour co-operation, though labour relations have never been bad in the commercial vehicles operations.

51 A major question-mark also lies over the quality of middle management and their ability to respond to the challenges of the next two years. The top management of the Leyland Group, and in particular Mr David Andrews, is highly regarded. But the previous senior management, and thus the present middle management, were undoubtedly slow to adjust to the problems created by the severe recession affecting the commercial vehicle market. On the other hand, until this recession, Leyland Trucks had stayed in profit, and the scope for recovery with a coherent and radical reconstruction such as is now in hand should not be under-estimated.

52 In summary, there are major and serious risks to the achievability of the Leyland Trucks part of the Leyland Group Plan, and these focus in particular on the effect of even a small loss of volume, and the extent of the management task.

53 The BL Board have themselves recognised and accepted the element of risk attaching to the achievement of the Leyland Truck forecasts. They have therefore taken two steps:

a) they have allocated a contingency, to be held centrally by BL against non-achievement of the key forecasts, of the following amounts:

£m	1981	1982	1983	1984	1985	1986
PBIT	5	40	38	47	48	45
Asset flow	5	10				
Total cashflow	10	50	38	47	48	45

b) they have identified "benchmarks" against which detailed monitoring of the progress of Leyland Trucks will be measured.

Options

54 BL were asked to evaluate and present a number of options in this year's Corporate Plan: (a) the full range strategy involving maintenance of current facilities, (b) a scaled-down operation based on contracting out of less profitable sectors and (c) closure, with disposal of those parts of the business which could be sold.

55 In the event, although variants of the full range strategy were looked at, BL did not believe that any of these were worthy of serious consideration: the business could not support the cost base. Their present Plan is a version of Option (b), and is only full range in that a full truck model range is retained: engine production is halved and gearbox production halted.

56 BL did explore the possibility of scaling the business down further by withdrawing from the lighter end of the truck market. They concluded, however, that this would be riskier than the option presented in the Corporate Plan because it would involve the fragmentation of the model range with a consequent risk to sales because of the loss of fleet purchasers and a reduction in number of dealers. BL considered that such a reduced business could not produce the same financial benefits as their Plan option and would be far riskier in terms of the pressure on management. They are therefore of the view that this option should only be investigated further if the present Plan failed and consider that at this time liquidation is the only possible alternative to the Corporate Plan which they have presented; we concur in this.

57 The effects of liquidation on BL are assessed, in the light of work done by BL, as follows:

i) Some parts of the business could continue: probably Leyland Bus, Leyland Parts (in a reduced form), Self Changing Gears and most overseas companies.

ii) Adverse effect on Land Rover because of the weakening of joint Land Rover/Leyland Group sales companies overseas, particularly in Africa.

iii) Possible major implications for private funding for the remainder of the BL Group; at least £100m of loan stocks would almost certainly have to be repaid immediately, with the £300m medium term loans (currently under negotiation) also being put in jeopardy. Government guarantees would almost certainly be necessary to provide revised funding arrangements for the remainder of BL.

58 The assessment of the public expenditure and PSBR costs of liquidation is concerned only with the net PSBR costs of liquidation of Leyland Trucks over and above the PSBR cost of supporting the Corporate Plan (which itself involves redundancies etc). In a dissolution some parts of the business could be expected to survive (see para 57(i) above) and the overseas companies should also be disposable. However, this assessment takes no account of the possible proceeds from such disposals; it does, nevertheless, include proceeds from disposal of assets and inventories within Leyland Trucks on a liquidation basis, since, given the present cyclical trough in the European and world truck markets, there is little likelihood of the Bathgate and Albion works, or even of the modern Leyland Assembly Plant, being sold as going concerns.

59 As in the previous years, the Treasury have taken the lead in this assessment, and have used methodology similar to that in previous reports. A more detailed note is at Annex C. The elements of the calculation are:

- numbers made unemployed in Leyland Trucks and in supplier industries;
- 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 PSBR we must add:

- Lost tax and NI contributions.

A table showing the effects of a liquidation on the regions most concerned is at Annex D. This shows that unemployment at Bathgate (West Lothian) could rise from the current (November 1981) level of 9423 and 18.9% of the workforce, to 12,435 and 25% and at Leyland (Preston) from 17,559, 11.8% of the workforce, to 23,123, 15.6%.

60 Pulling together all the elements, the closure cost calculation is as follows:

	1982/3	1983/4	1984/5	1985/6	Total
			£m current prices		
Redundancy costs	55	-	-	-	55
Social Security benefits	21	33	28	20	102
Repayment of loans	100	-	-	-	100
Trade creditors	131	-	-	-	131
Other costs	18	6	-	-	24
Trade debtors	(68)	(2)	-	-	(70)
Disposal proceeds: assets	(15)	(14)	(4)	-	(33)
Inventory	(51)	(16)	-	-	(67)
Total public expenditure	191	7	24	20	242
Lost tax revenue) Lost NI revenue)	38	49	42	30	159
Total PSBR costs	229	56	66	50	401

61 By way of comparison, Government funding allocated to the Leyland Group in 1982/3 is £50m. It should be noted, however, that, if it is decided not to fund the Corporate Plan, in addition to the costs in the table above, the Government might have to meet the cost of redundancies envisaged in the Corporate Plan which would otherwise fall to BL's account.

62 The employment, public expenditure and PSBR estimated effects of the Leyland Group closure given above are based on a methodology which is essentially micro-economic in character. 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 PSBR effects.

CONCLUSIONS: CARS, LAND ROVER AND UNIPART

63 BL's recovery strategies for the Cars, Land Rover and Unipart Groups are essentially unchanged from the 1981 Plan, but have been tightened in response to the worsening economic climate worldwide.

64 Major progress has been made in the physical performance of the Cars Group in 1981. The programme of rationalisation of models and facilities is well on course. Manpower is lower than forecast, and the forecast productivity improvements have been fully achieved. Market share is higher than budgeted. The labour relations position continues, however, to give serious cause for concern; and this remains a major - perhaps the principal - risk to the achievement of the Plan. The revised Plan still shows a return to profit (before interest and tax) in 1983; but the level of forecast profit is lower throughout the period than in the previous Plan, because of more adverse economic conditions forecast throughout the period. Cash outflow, however, is now likely to be held within the budgeted level for 1981, and is forecast to stay as projected in the 1981 Plan throughout the period. On the collaborative front, the widening relationship with Honda (demonstrated most recently by the Letter of Intent on the proposed jointly designed and manufactured executive car, the XX) holds out the best prospect of a long term resolution of the Cars Group problem. We conclude that there is no change in the position or prospects of the Cars Group which would justify a decision not to continue funding the Plan agreed last year for the remainder of the two year period, ie to March 1983. A major labour relations upset could, however, lead to a closure of the Group; and the Board's resolve in this respect remains undiminished, as demonstrated by the recent pay dispute.

65 We are also satisfied that the Plan for the Unipart Group remains on course, though its fortunes remain tied closely to those of the Cars Group until such time as its business in "other makes" parts develops to a much greater proportion of its activities than at present.

66 The Land Rover Group continues to be profitable, but has not had a good year. It is vulnerable to Japanese competition in developing country markets. Its Freight Rover (Sherpa van) Division is particularly vulnerable to Japanese competition in the UK market, and has suffered considerably from this in the past year; though the recent SMMT/JAMA agreement on light commercial vehicles should improve the position in 1982. Restraint on UK imports of Japanese four-wheel drive cehicles will continue, somewhat tightened, in 1982; but this will not help Land Rover overseas where the recent strengthening of the Japanese yen against sterling is the only alleviating factor. Land Rover production facilities will benefit from heavy recent capital investment, though production of major components remains spread over several works; on the other hand, substantial gains in productivity are forecast during the Plan period, linked partly to the fruition of the capital investment

/programme

programme. Our overall judgement is that the Land Rover Group has suffered a deterioration, particularly in profit, in the past year (due more to external rather than internal factors) but is not facing sufficiently severe problems to justify reconsideration of continued Government funding - particularly since it is expected to remain in profit throughout the period.

67 BL as a whole is forecast to make larger losses in the early years of the Plan than was foreseen twelve months ago, mainly because of the performance of the Leyland Group; and the company would be vulnerable to any further deterioration in economic prospects. However no extra Government funding is forecast to be required to carry out the Plan to 1986 (though, as last year, the Plan identifies a need for additional external equity of £150M over the two succeeding financial years) and the judgement of the Board, which we share, is that the deterioration in profitability is not sufficient to undermine seriously the basis of the present funding arrangement agreed between the Government and BL or to diminish the possibilities for attracting private capital into the more profitable groups when circumstances permit. The formation of the four groups, envisaged in last year's Plan, is now implemented; and these will be established as Companies Act companies from the 1st January 1982. This development will not only assist a greater degree of management autonomy and efficiency, but will enhance the opportunities for collaboration and for attracting private capital.

68 We therefore recommend that the Government should approve the 1982 Plans for the Cars, Land Rover and Unipart Groups as a basis for the continued funding required in 1982/83.

CONCLUSIONS ON THE LEYLAND GROUP PLAN

69 After a long period of profitability, the businesses comprising the Leyland Group made a loss in 1980 and will make a larger one in 1981; and in common with other commercial vehicle manufacturers the Group is severely affected by the precipitous fall in the size of the truck market throughout the world, and particularly in the UK (46,000 in 1981 compared with 80,000 in 1979). The Truck Division of the Leyland Group is the main problem area. To meet this situation BL propose a radical revision of the strategy for Leyland Trucks. The Leyland Group Plan proposes a major cut in the manpower of Leyland Trucks in the UK (by 4100, a 25% reduction mainly in 1982); concentration of engine manufacture at Bathgate and vehicle assembly at Leyland (Lancs) instead of a mixture of both at each location; complete cessation of manufacture of two engines and all gearboxes in favour of buying in, and collaborative manufacture of the remaining two engines; closure of the Guy Works at Wolverhampton; and disposal of the tractor business. The Plan envisages, on this basis, a return to profit after interest and tax in 1983 for the Leyland Group as a whole (1984 for Leyland Trucks), and to a positive cash flow in 1984 both for the Group and for Leyland Trucks; and by the end of the Plan period a return to viability which should allow it to raise private sector finance without Government backing.

70 The Plan includes, at Ministers' request, an assessment of the costs of the alternative option of closing Leyland Trucks; other options have been examined but dismissed as more expensive than the restructuring proposed, and commercially barely tenable. Liquidation of the leyland Group is thus presented in the Plan as the only effective alternative. Our assessment is that only a few parts of the Group - within the UK, probably only the bus operation - would survive as going concerns. Closure would have important political and social implications particularly because of the concentrated local effect on unemployment in North West England and Scotland. In contrast with their position on the Cars Group Corporate Plan a year ago, when the BL Board presented the Plan as essentially a matter for judgement of broad national considerations rather than a strictly commercial decision, the Board "believes strongly that it would be wrong to take this course [closing Leyland Trucks] while a real chance exists of saving the business and that the new Leyland Group management team should be given an opportunity to demonstrate their ability to meet the formidable targets they have set themselves."

71 In terms of public expenditure, endorsement of the Leyland Group Plan involves no increase in the figures agreed and announced by Ministers for BL as a whole in January 1981, in respect of 1981/82 and 1982/83. Approximately £50m out of the £370m agreed for BL for 1982/83 is in respect of Leyland Group's UK activities; and the BL Board are confident that this, together with a central contingency of a further £50m against shortfall in the performance of the Leyland Group against its Plan, can be accommodated without any increase in Government funding in that year. The Leyland Group's projected cash requirements, even including a corresponding contingency in subsequent years, are projected by BL as being containable within

/the

the overall projections for BL which provide for no commitment to Government funding after the end of 1982/83 (though, as last year, the Plan identifies a need for additional external equity of £150m over the two succeeding financial years).

72 The PSBR cost of the closure option depends primarily on the views taken about the effects on unemployment levels and reabsorption rates and on the extent to which the Government would have to redeem parts of BL's borrowings; our calculations suggest that the first year PSBR costs could be about £175M (with a cumulative cost over four years of about £350M) over and above the present allocation for 1982/83.

73 There are substantial risks to the achievement of the Group's Plan, mainly in relation to Leyland Trucks, of which the most serious are:

a) although the new senior management of the Group is highly regarded, there is still a question mark over management quality at middle levels, given the need to handle the major reduction in manpower required in 1982 under the Plan, the major changes in manufacturing facilities and activities, and the need to contain material cost increases to the extent envisaged by the Plan;

b) a lack of cooperation from the workforce (though the record has been historically good);

c) a shortfall in sales volume, market share or price in the UK market: this could arise from a recession more prolonged than BL assume, or from a failure of new models to recover lost market share;

d) the effects of the exchange rate on overseas sales, both in terms of BL's own return and of its competitiveness against other manufacturers.

74 On the other hand:

i) the Plan's projections of total market and market share are now realistic and far more cautious than the previous somewhat optimistic Plans for the Group;

ii) the general economic assumptions are also cautious and are broadly acceptable;

iii) the major cost reductions forecast are based on the radical restructuring of manufacturing facilities, the use of collaboration for some engines and the direct purchase of other engines and all gearboxes;

iv) the manpower reductions and manufacturing changes are proportionately somewhat less severe than those already successfully accomplished in the Cars Group, though they are scheduled to take place over a shorter timescale;

v) heavy and medium family of models is well planned and is already available, and plans are well advanced for a new light vehicle which requires relatively small investment;

vi) the company is traditionally profitable and has suffered particularly both in profitability and in productivity from the exceptionally deep cyclical recession in truck demand;

75 Departments differed in their judgement of how strong a prospect the Plan gives of a return to profitability by 1983 or 1984 without the need for any extra Government funding beyond that already provided for. Departments other than the Treasury judged that the prospect was reasonable, though subject to substantial risks; the Treasury, on the other hand, judged that the risks and opportunities were more finely balanced. Taking account of the additional public expenditure and PSBR costs of closure, the recommendation of the Group as a whole is that the Leyland Group Plan should be approved, but on the basis that:

i) the "benchmarks" against which the Plan says the progress of Leyland Trucks will be measured and on the achievement of which decisions will be made on continuing, modifying or abandoning the Plan, should be declared to the Government; and progress against them should be included in the monthly monitoring arrangements for BL as a whole;

ii) continued support of the Plan after the end of 1982/83 will be dependent on that progress and on review in the context of next year's Corporate Plan.

Department of Industry
2 December 1981

ASSESSMENT OF PROFIT SHORTFALL IN 1981

1. BL's total PBIT shortfall, compared to projections in the 1981 Plan, is forecast to be £124m. This note attempts to assess reasons for the shortfall in each of the Groups separately. Throughout this analysis a distinction (necessarily somewhat arbitrary) has been drawn between factors that are susceptible to control by BL ('internal' factors) and those which are not ('external' factors). Quantification of the various factors at work is not a precise science and we would claim only that identification of the factors underlying BL's performance is possible within sufficiently acceptable ranges of confidence to allow a fuller understanding of the strengths and weaknesses of the company.

Cars Group

2. Car Group's forecast outturn is very close to budget - a shortfall of only £4m. This contrasts dramatically with last year's result of a shortfall of £356m against the 1980 Plan. This performance results, however, from a balance of opposing forces. On the negative side the major influence has again been the higher than estimated value of sterling against other major currencies. In particular, BL (in common with other forecasters) expected sterling to fall against European currencies - and Europe is Cars' most important export market - whereas in fact it held steady. This was only partially offset by the unexpected fall against the dollar which provided a stimulus to Jaguar exports. Details of the exchange rate variances are as follows:

Budgeted and actual (forecast) levels of sterling in 1981

	Budget (1981 Plan)	Actual
US $	2.30	2.05
German DM	4.10	4.60
French franc	9.65	11.25
Italian lira	2000	2340
Japanese yen	490	450
Effective Exchange Rate	94	97

3. The effect of these variances on PBIT - taking into account both lower than budgeted margins in the UK in order to remain competitive with foreign manufacturers (pricing effect) and lower than budget revenue from overseas sales (conversion effect) - is shown below:

Effect on PBIT of stronger than expected sterling

	£m
UK pricing	(20)
Foreign currency conversion	(54)
	(74)

4. The other 'external' factor which has had an overall negative impact on PBIT is the worse than expected general economic climate. The higher than expected UK demand for cars (1.447m as against 1.420m) is estimated to have improved PBIT by £11m. However, this has been more than offset by an unexpected shift in demand towards smaller cars on which profit margins are lower: the share of the small car section in the total UK car market has risen from 15.9% in 1979 to 25.9% for the first 9 months of 1981. Finally, high interest rates have continued to exert an adverse influence through dealer de-stocking. The net effect of all these general economic factors is estimated to have been to reduce PBIT by some £9m.

5. The 'internal' performance during the year has, however, been sufficiently impressive virtually to offset the total 'external' negative impact of £(83)m. A higher than expected 1981 UK market share (due largely to Metro's success) - forecast at 19.5% compared with the 1981 Plan projection of 18.5% - is estimated to increase PBIT by some £16m; against this, however, export volumes and margins were below budget. In addition BL have managed substantial improvements in their cost and efficiency performance - including bigger manpower reductions, increases in the productivity of labour, capital and inventories and cost reductions from budget for labour and component purchases. The net effect of these 'internal' factors is to have increased PBIT by £79m, compared to budget, as follows:

Effect on budgeted PBIT 1981: Cars Group

	£m
Higher UK market share	16
Lower export volume	(6)
Cost performance and efficiency improvements	62
Other	9
Total	79

6. The figures for Jaguar are included in the above totals. As noted above, however, the effects of exchange rate movements have been different for Jaguar, which concentrates on the North American rather than the European markets. At the beginning of the year, a strong pound was inhibiting exports to the US and share of the UK market was only 0.3%; losses were running at about £2m per month. A drive to improve quality and reliability and to maintain steadiness of production, together with vigorous marketing and a substantial strengthening of the dollar have resulted in considerable improvements: UK market share was 0.5% in August and September, exports up on last year and the company is now running at approaching breakeven (before interest).

Land Rover Group

7. Although the Land Rover Group continues to be a profitable company, profitability is now only marginal following a very bad year. The Plan forecast for 1981 of £4m PBIT (now revised to £8.3m as a result of improved sales in September), compares with profits of £27m in 1980 and budgeted profits in the 1981 Plan of £33m.

8. The breakdown of the 1981 profit shortfall from budget is given below:

Breakdown of PBIT shortfall from budget: Land Rover Group

	£m
UK vehicle demand	(1)
UK market share	(7)
Export volume	(15)
Pricing	(5)
Currency conversion	(12)
Cost performance and efficiency improvement	10
Other	1
	(29)

9. As with Cars, Land Rover Group suffered as a result of exchange rates being more unfavourable than expected and lower export volumes. These have affected particularly Land Rover Ltd, the manufacturer of the Land Rover and Range Rover four-wheel drive vehicles, which exports about 80% of its output. Land Rover Ltd has also been affected by the strength of Japanese competition in third markets - Japan produced about 50% of worldwide four-wheel drive output in 1980 (cf 20% in 1978) and 90% of their production

is for export. This competition accounts partly for the fall in Land Rover Ltd's worldwide sales from 61,000 (1980) to 54,000 (forecast 1981). The company is, however, expected to hold onto its UK market share.

10. Japanese competition has also affected the performance of Freight Rover Ltd, the other half of the Land Rover Group, which competes in the market for light commercial vehicles of 2-3.5 tonnes GVW with the Sherpa van. Although the company has doubtless suffered from adverse external factors and in particular from Japanese competition, there has also been a serious problem with product - its only product is the Sherpa van and this has had difficulty in competing (for design and quality reasons) against the Ford Transit and Japanese imports. A considerable amount of management attention has consequently been devoted to the problems of Freight Rover in 1981. This is beginning to pay off with better build quality and marketing and market share is currently running at some 10%, as against the 8% forecast for 1981 as a whole.

Unipart Group

11. Unipart's forecast PBIT of £12m is some £12m short of PBIT projected in the 1981 Plan. The poor results are a direct result of the recession, combined with high interest rates, which has led to dealers running down their stocks in order to economise on working capital. Improvements in productivity were able only partially to offset these negative factors:

Breakdown of 1981 PBIT variance from Plan: Unipart Group

	£M
UK part demand *	(9)
Export volume *	(4)
Exchange rate	(1)
Cost performance and efficiency improvement	4
Others	(2)
	(12)

* includes effects of dealer destocking

Leyland Group

12. The Leyland Group's profit shortfall in 1981 is estimated at £74m, although it may be considered rather artificial to compare forecast outturn - a loss before interest and tax of £75m - with the 1981 Plan since that Plan was not endorsed by the BL Board.

13. The absolute performance of the Group was severely affected by the collapse in total truck demand in the UK. However, most of this fall in demand had already been anticipated and it is estimated that lower than budget demand accounts only for some £(8)m of the PBIT variance. The Group was also hit by a move in market demand away from the heavier end of the market - where the Group is represented by its newest and most competitive models - and by a high level of dealer destocking, together estimated to reduce PBIT by a further £(7)m. The effects of higher than budgeted exchange rates are estimated as follows:

Exchange rate effect

	£m
UK pricing	(14)
Foreign currency conversion	(8)
Total	(22)

All told, these external factors have therefore reduced PBIT by some £37m.

14. The other half of profit shortfall is due to what can be characterised as internal factors. First, overall market share has declined from 17.3% in 1980 to a forecast 16.4% in 1981. Secondly, there has been a shortfall in export volumes. Both these factors reflect in part the ageing and uncompetitive models at the lighter end of the market. Thirdly, unlike BL Cars and Land Rover, cost performance and efficiency has deteriorated from budget by some £12m. The Group was clearly unable to achieve the volumes necessary to support its cost base and the new emphasis of the 1982 Plan is intended to rectify this problem by severe rationalisation of facilities.

BL'S ECONOMIC ASSUMPTIONS - MAIN CASE AND ALTERNATIVES

BL's Forecast

1. The main elements of the economic forecast used to develop the 1982 Plan are as follows:

THE ECONOMIC FORECAST FOR THE 1982 PLAN - SUMMARY

* Latest forecast

	1980	1981*	1982	1983	1984	1985	1986
% change/year							
GDP (output)	-3	-3	0	1.0	1.5	0.5	0.5
Manufacturing Output	-9	-7	-2	-1	-0.5	-1.0	-0.5
Retail Price Inflation	18	12	11	11	10	9	9
Manufacturing earnings	17.8	12	8.5	11	10	9	9
Material and fuel inflation	12.3	5.0	8.5	11	10	9	9
MLR (%)	16.3	13.5	11	10	9	9	9
Effective UK Competitiveness	117	118	119	120	120	120	120
(1979 = 100)	(increase in index = decline in competitiveness)						
Exchange Rates - Value of £ Sterling							
US ($)	2.33	2.00	2.00	2.00	1.97	1.95	1.93
Germany (DM)	4.23	4.50	4.25	3.95	3.70	3.50	3.30
France (FR)	9.83	10.75	11.35	11.50	11.60	11.70	11.80
Italy (L)	1992	2250	2300	2350	2400	2450	2500
Japan (Yen)	526	440	430	415	405	395	380
Effective Exchange Rate	96.1	94	93	91	89	87	85

2 The UK recovery is forecast to be very slow with manufacturing output falling throughout the Plan period. This forecast, and the forecast of world economic activity in general, are somewhat lower than those used in the 1981 Plan.

3 For currency, the average strength of sterling is forecast to be lower than in the 1981 Plan, but the average conceals important differences - the pound is forecast to be decidely weaker against the US dollar and Yen than in the 1981 Plan, but stronger against the main European countries.

4 For UK competitiveness (currency and relative inflation combined) the UK is not forecast to recover to any significant extent over the period, and will continue to be in a much worse position than in 1979.

<u>Assessment</u>

5 The BL forecast differs from the Treasury outlook in several important respects. On the general level of activity, BL are relatively pessimistic: for example GDP and consumer expenditure are projected to grow more slowly than in the Treasury forecast. BL also forecast a stronger effective sterling exchange rate. On the other hand, BL are relatively optimistic about the outlook for earnings and particularly for raw material costs; they also show a fairly sharp decline in interest rates (itself probably
/exchange not wholly consistent with their/ rate forecast). Overall, BL's economic assumptions forecast seem reasonably central.

<u>Alternative Cases</u>

6 In recognition of the uncertain economic outlook, BL have prepared assessments not only on the "main" case but in outline on two alternatives, characterised as the "high sterling" and "low sterling" cases. Besides exchange rates, these cases incorporate changes in UK economic growth (hence market size and BL sales volumes) and UK inflation rates (hence changes in costs and revenue).

7 BL note that the effects of changes in these factors are complex and take place over a considerable period. It is therefore impossible to be sure that the evaluation of these alternative cases shows a true outcome. If they arose, they might also require changes to 'physical' plans (products, manufacturing etc). The estimated effects on revenue, cost and working capital levels are included, in the summary figures below, but BL have made no

attempt to reflect any modifications which may have to be made to physical plans. Volumes have however been modified to reflect changes in the size of the UK market.

ALTERNATIVE ECONOMIC CASES SUMMARY OF FINANCIAL IMPLICATIONS

High Sterling Case		1982	1983	1984	1985	1986
UK Price Inflation	(%)	9.5	8.5	7	7	6
Effective Exchange Rate Index		102	104	103	102	102
PBIT	£M	(275)	(273)	(252)	(254)	(233)
Cashflow	£M	(657)	(555)	(511)	(505)	(482)
Return on Assets Employed	(%)	(17)	(15)	(13)	(13)	(11)

Low Sterling Case						
UK Price Inflation	(%)	14	11	10	10	10
Effective Exchange Rate Index		83	82	81	78	75
PBIT	£M	(30)	262	368	546	632
Cashflow	£M	(472)	(135)	29	255	323
Return on Assets Employed	(%)	(2)	14	17	24	26

Memo:

1982 Corporate Plan
- Main Case

UK Price Inflation	(%)	11	11	10	9	9
Effective Exchange Rate Index		93	91	89	87	85
PBIT	£M	(145)	27	188	271	357
Cashflow	£M	(557)	(305)	(111)	30	88
Return on Assets Employed	(%)	(9)	1	9	13	16

8 BL comment that the low sterling case would probably make it economic to commence selling in countries which do not offer a sufficient profit margin at present. This might be accompanied by the need for capital investment in more production capacity and/or new products. The high sterling case would probably trigger further retrenchment and plant closures. There would be considerable doubts over the ability of any part of BL to survive under the high sterling case.

LEYLAND TRUCKS: EFFECTS OF CLOSURE

Introduction

1. This note attempts to identify the additional public expenditure and PSBR costs which would result from a decision to close down Leyland Trucks i.e. those costs which are over and above the cost of implementing the rationalisation of Leyland Trucks envisaged in the Corporate Plan. It should be stressed that it is only possible to indicate the order of magnitude of such costs.

2. A decision not to fund the Leyland Group Corporate Plan would require a number of decisions to be taken about the mechanics of closure and the allocation of costs between Government and BL. For the purposes of this exercise, the general working assumption has been that Government would meet the costs of, for example, redundancies and trade creditors but also benefit from any proceeds from trade debtors and sale of Leyland Trucks' inventory and capital assets.

Employment

3. On the evidence of the Leyland Group's Corporate Plan, closure of Leyland Trucks would involve the loss of 9,500 jobs at BL, over and above those already provided for in the Plan. Employment losses in supplier firms are very difficult to estimate, mainly because the fundamental rationalisation of Leyland Trucks under the new Plan will imply new supplier relationships to those we have had in previous such analyses. In particular, the outsourcing of gearboxes and two of the engines will mean that under the new Plan the ratio between supplier employment dependent on Leyland Trucks and Leyland Trucks employment will be higher than in the past. We have estimated employment losses in supplier firms at around 15,500. However, not all of the Leyland Truck output will be lost to the UK. It is believed on the basis of current market share information that about one-third of Leyland Truck's output would be replaced with other UK-based production, so there would be offsetting employment gains in rival UK assemblers and suppliers. These offsetting employment gains are estimated at 8,000, although it is recognised that because of below capacity working in the industry all of these employment 'gains' are unlikely to materialise immediately.

4. It is assumed that a policy decision not to fund Leyland Trucks further would be taken before the end of 1981. BL say that "in practice it is considered that at best the close-down could not be spread over more than 4-6 months". It is therefore assumed that the job loss at BL occurs on (or is spread either side of) 1 April 1982. The further job losses and offsetting gains in rival firms and suppliers would take place throughout 1982-3; a mean effective date of 1 October 1982 is assumed.

5. In summary, the job loss in 1982-3 is assumed to be as follows:

Job losses:	in Leyland Trucks	9,500
	in suppliers	15,500
		25,000
Less offsetting job gains in UK assemblers and suppliers		8,000
Net job loss		17,000

6. It is accepted that a major closure leads to a net increase in unemployment above what would otherwise have been projected nationally. This impact diminishes as the economy returns to equilibrium and unemployment resources are re-absorbed. A major issue in analyses such as this is the speed at which re-absorption takes place. Given the Government's overall macro-economic policy stance as expressed in the MTFS, a closure of Leyland Trucks should not lead to any permanent change in aggregate national unemployment in the medium to longer term. A continuing loss of jobs at Leyland Trucks is probably already implicit in the MTFS; 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.

7. There would certainly be a transitional increase in unemployment until markets had time to adjust. But there is wide range of view 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, in the case of a closure of BL Cars, it was felt to be only prudent to assume that the net re-absorption rate would be rather slower: 0% in the first two years, 25% in the third year and 50% in the fourth year. In the present case it is already assumed that there is an identifiable level (8,000 jobs) of re-employment within the same industry in Year 1. The question arises whether there should be any additional assumptions made which might point to a faster re-absorption rate that in the Cars case. It is noted that previous exercises have assumed that a Leyland Group closure would be followed by a faster level of re-absorption, but weight must also be given to the view that re-absorption will be slow because of the highly localised effects of closure and because current underemployment in the UK truck industry will enable UK truck manufacturers to increase production (to take up some of Leyland's market share) without a commensurate increase in employment.

8. On balance, it seems sensible to retain the Cars case assumptions: on this basis, the net increase in unemployment would be as follows:

At 31 March	1983	1984	1985	1986
Number	17,000	17,000	13,500	9,500

Redundancy Payments

9. It has been assumed that about 90% of Leyland Truck's employees (ie about 8,550) would be eligible for redundancy payment: this eligibility assumption is based on information provided by BL. The average redundancy payments have been calculated on the basis of BL's standard closure terms which take into account such factors as length of service, level of skill, bonuses for smooth run down of production etc. On this basis, an average redundancy payment of £5850 has been assumed, reflecting the high proportion of skilled labour in the industry and the fact that many employees have been long-serving. This figure includes the contribution from the State Redundancy Fund. The total cost of these redundancies would therefore be about £50 million.

10. In addition, there would be a cost to the State Redundancy Fund from job losses in supplier firms. Assuming 60% eligibility, which is the national figure for the engineering industry, this cost would be nearly £5m.

Social security benefits, lost tax and NI receipts

11. On the basis of the above assumptions about the net employment effects, the following calculations of financial implications have been made:

£m	1982/3	1983/4	1984/5	1985/6
Social security payments	21	33	28	20
Loss of tax revenue } Loss of NI revenue }	38	49	42	30

Other (non-labour) costs

12. These include:

- the need to repay about £130m of trade credit;
- the probability that about £100m of loans and loan stock will have to be repaid; it may be possible for BL to refinance this debt but we regard this as unlikely given the extent of existing private sector exposure to BL.

13. It has been assumed that the risk to BL's £300 million medium term loans would not have any public expenditure implications. Negotiations on these loans are continuing. It is difficult to assess in advance what effect the closure of Leyland Trucks would have on these negotiations. BL could present the closure as a necessary commercial decision which would substantially improve the outlook for the company as a whole. Furthermore, closure would not alter the security provided by the Government's public statement of its obligations with regard to BL's debts and, in as far as trade creditors of Leyland Trucks were paid, would strengthen it. It should be noted, however, that the banks may be sufficiently unnerved to request a formal Government guarantee.

14. The calculation of costs takes into account miscellaneous costs such as those arising from warranty obligations. These 'other costs' total £24m over the four years 1982/3 to 1985/6.

Summary

15. On the basis of the above assumptions the total financial effect on Government is calculated as follows:

	1982/83	1983/84	1984/85	1985/86	Total
Redundancy costs	55	-	-	-	55
Social security benefits	21	33	28	20	102
Repayment of loans	100	-	-	-	100
Trade creditors	131	-	-	-	131
Other Costs	18	6	-	-	24
Trade debtors	(68)	(2)	-	-	(70)
Disposal proceeds: assets	(15)	(14)	(4)	-	(33)
inventory	(51)	(16)	-	-	(67)
Total Public Expenditure	191	7	24	20	242
Lost tax revenue) Lost NI revenue)	38	49	42	30	159
Total PSBR costs	229	56	66	50	401

Note: Although included above as a cost in 1982/83, it should be noted that trade creditors may require payment in 1981/82.

+ See next page

16. Closure of Leyland Trucks would also have the following further implications for Government funding:

a. Closure would enable the saving of up to £50m of the Government funding currently projected for Leyland Group in 1982, but against this has to be set the costs of redundancies assumed in the Corporate Plan, which would fall to Leyland Group's account if the Corporate Plan were funded. On the basis of the working assumptions used for the above calculations, the cost of these redundancies could amount to around £25m in 1982/83.

b. On the basis of projections in the Leyland Trucks Plan there would be a beneficial cash impact on BL as a whole in the early years of the Plan, but a detrimental effect in later years, since Leyland Trucks is forecast to recover to a positive cashflow. BL quantify the effect as follows:

Beneficial (Detrimental) effect on BL cashflow of closure of Leyland Trucks

1982	1983	1984	1985	1986	(£m)
89	35	(5)	(28)	(40)	

However, the beneficial effects would be offset and detrimental effects compounded to some extent by the worse-than-Plan performance of Leyland Parts and the adverse effects on other parts of BL consequent upon a closure of Leyland Trucks.

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PLANT	TTWA	UNEMPLOYMENT NOVEMBER 81 NO	%	EMPLOYABLE POPULATION	CORPORATE PLAN JOB LOSS	UNEMPLOYMENT (1) FOLLOWING CORPORATE PLANT NO	%	LIQUIDATION GROSS JOB LOSS	UNEMPLOYMENT (1) FOLLOWING LIQUIDATION NO	%	1982 AA STATUS
BATHGATE	BATHGATE	9,423	18.9	49,714	1,365	10,515	21.2	3,765	12,435	25.0	DA
ALBION	GLASGOW	94,564	16.0	592,914	140	94,676	16.0	1,840	96,036	16.2	SDA
LEYLAND	PRESTON	17,559	11.8	148,371	1,855	19,043	12.8	6,955	23,123	15.6	- (NOW IA)
GUY	WOLVERHAMPTON	24,101	16.5	146,271	740	24,693	16.9	740	24,693	16.9	-

(1) Assumes 80% registration of those made redundant

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ANNEX D

cc AD
JV
Ind

Nat Ind

✓ pres

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

25 November 1981

I. Ellison, Esq.,
Private Secretary,
Department of Industry

Dear Ian,

BL: LONGBRIDGE DISPUTE

I have drawn the attention of the Chancellor of the Exchequer to your letter and attachment of 24 November about this dispute, and the tactics which Sir Michael Edwardes proposes to adopt.

The Chancellor takes the view that it is quite appalling that the workforce at Longbridge should be prepared to set the company back in this manner, just at the moment when, as the workforce are aware, management have submitted the 1982 Corporate Plan to Government to justify further large tranches of taxpayers money. Even if the dispute is quickly settled now the Chancellor suspects that customer confidence in Longbridge, which appeared to be showing signs of revival, will have been undermined by these events. The Chancellor notes that the Secretary of State will be kept informed about developments and will be consulted before any irrevocable action is taken. While the Chancellor believes it important that the Ministers should be kept up to date in this way he also believes that there should be no question of the Government intervening if the BL Board decides to follow the tactics described by Sir Michael Edwardes in his letter of 23 November to your Secretary of State.

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

Yours ever,
Peter

P.S. JENKINS

CONFIDENTIAL

Ind Pol JS

bc JV
AD
BI

10 DOWNING STREET

From the Private Secretary 25 November 1981

BL: LONGBRIDGE DISPUTE

The Prime Minister has seen your letter to me of 24 November, about Sir Michael Edwardes' request for an urgent assurance that, if the BL Board decided today that letters should be sent to strikers threatening dismissal, the Government would not intervene.

The Prime Minister is content with the line which your Secretary of State proposes to take in replying to Sir Michael's letter.

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

M. C. SCHOLAR

Ian Ellison, Esq.,
Department of Industry.

10 DOWNING STREET

PRIME MINISTER

Do you agree to the course of action proposed by Mr. Jenkin?

Yes

MCS

M.

24 November 1981

Michael

Ian Ellison rang to ask what the PM's answer was. I told him that she had agreed action proposed by Mr Jenkin. Could you please confirm this by letter. You may be interested to know Chancellor agreed

pto

this action aswell

Steve
25/11/81

PV34

CC AD ✓
JV ✓
BI ✓

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*

24 November 1981

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

Dear Michael

BL: LONGBRIDGE DISPUTE

... I enclose a letter of 23 November which Sir Michael Edwardes has sent to my Secretary of State about the dispute at Longbridge. Sir Michael is seeking an urgent assurance that, if the BL Board decided on 25 November that letters should be sent to strikers threatening dismissal, the Government would not intervene.

2 My Secretary of State thinks that BL would appear to be in the right in this dispute. There is a clause in their recent Pay and Conditions Agreement with the unions for 1981/82, which states that "the sections of the 1979 EEF/CSEU Agreement for the Engineering Industry in respect of the increase in holidays and the reduction in the working week, including the requirement in that Agreement that productivity be raised to offset the cost of these improvements, will be applied by the Company [BL]". My Secretary of State detected signs at a recent meeting which he had with the BL Board of a determination that industrial relations in the cars business should be improved. The current dispute at Longbridge has arisen, however, before there was any chance of this happening.

3 My Secretary of State does not think there is any alternative choice at this stage to giving Sir Michael the backing which he is seeking. He proposes to reply to Sir Michael's letter on the lines that, if the Board decided to support the initiatives planned by BL Cars' management, the Government would not intervene. He would, however, expect the Chairman to keep him closely informed and to consult him again during the succeeding stages before any irrevocable action was taken leading to closure of the volume cars business, or large parts of it.

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4 BL will not be reactivating the contingency arrangements which I explained in my letter of 30 October until 27 November, the day on which the strikers would be sent warning letters, and are not at this stage asking the Government to review the arrangements for the issue of guarantees and/or assurances to creditors. They take the view that the threatened dismissal of part of the workforce at Longbridge would not have the same effect on confidence in the company as the dismissals over a much wider front which were threatened in the recent pay dispute. BL have every intention, however, of following up the warning letters to strikers with whatever further action the situation requires, including actual dismissals.

5 Although Sir Michael has asked for a response by the morning of 26 November, his office have asked whether it will be possible to have a first indication of the Government's views before the BL Board's meeting at 3.00pm on 25 November. My Secretary of State would therefore be glad to know as soon as possible whether the Prime Minister and other colleagues are content with the line which he proposes to take in replying to Sir Michael's letter.

6 I am copying this letter and enclosure to the Private Secretaries to 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

Ian Ellison

CONFIDENTIAL

TELEPHONE 01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

RECEIVED IN
S.O.S FOR
INDUSTRY'S OFFICE

NOV 23 10:28

The Rt Hon Patrick Jenkin, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

23 November 1981

Mr Bowden FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) BY: Noon 24/11/81	COPIES TO PS/NL PS/JW PS/Sec Mr Maunsell Mr Mountfield

Dear Secretary of State,

LONGBRIDGE DISPUTE

As you know, workers on the Mini, Metro and Allegro assembly tracks at Longbridge have been on strike for over a fortnight in protest against management's proposed method of funding the one-hour reduction in the working week..... as the EEF/CSEU agreement of 1979 and our own pay agreements in 1980 and 1981 entitle BL Cars to do. Our chosen method is to do so by a reduction in the rest and relaxation allowance from 12% to 9% of the working day - this solution is not acceptable to those on strike, and they have no alternative solution to offer.

Two thirds of BL Cars plants have accepted and implemented this proposal, which brings our relaxation allowance down to the same level as Ford in the UK and leaves it above prevailing levels in Europe and in Japan.

Several meetings at local level have failed to resolve the issue, with the Longbridge shop stewards continuing to insist that the current relaxation allowance should be sacrosanct. It is not surprising that they have offered no effective means of funding the move to a 39 hour week, since in management's view there is no effective alternative. While some other companies in the engineering industry have simply absorbed the impact of the one-hour cut in the

CONFIDENTIAL

...../

working week, BL Cars is in no position to accept an additional 2.5% increase in its labour costs, having fought so hard to keep down the increase in basic rates to 3.8%.

Now that the strikers have voted (yesterday) to stay out for a further indefinite period, Cars management consider that it is essential for two main reasons to bring the dispute rapidly to a head. Firstly, our stocks of finished vehicles are now depleted, and in a few days we shall begin to lose market share because of supply shortages, quite apart from the damage already being done by customer reaction to the strike.

Secondly, if the dispute is allowed to continue for much longer, the attitudes of the strikers are likely to harden, so that Longbridge would be out of action for longer than our volume cars business could possibly stand.

Cars management are therefore undertaking a number of initiatives this week. A private meeting was held earlier today with Moss Evans and Terry Duffy, at which management's position (including our willingness to discuss a more extended phasing of the cut in the relaxation allowance, our commitment to refrain from declaring redundancies in consequence of the time saved by the reduced allowance, and our suggestion that the status quo including the 40 hour week should be restored to enable work to resume and discussions to continue) was fully explained and the likely consequences of a continuation of the strike were indicated. These would include the "constructive" dismissal of the strikers which could result in large scale closures within the Cars business, if those in default refused to comply and return to work.

The Rt Hon Patrick Jenkin, MP 23 November 1981

The national union leaders were unwilling to involve themselves in trying to settle the dispute, but at their suggestion a further meeting is being set up at local level, probably for tomorrow morning when the points put to the union leaders will be reiterated. Press leakages cannot be ruled out.

If this local meeting ends in deadlock, we have two further initiatives in hand. The first is to announce on Wednesday that Longbridge will be open on Thursday for normal working on the basis of a status quo proposal - i.e. that employees who report for work accept a 40 hour week until such time as agreement is reached on a method of funding the one hour reduction. The second, if this failed, would be to issue warning letters on Thursday stating that the strikers would be "constructively" dismissed if they did not report for work on the following Monday 30 November.

The BL Board has not yet been asked to approve these initiatives; it would of course be necessary for the Board to approve the latter course of action because, even though Cars management believe it would be likely to succeed in ending the strike, it would carry the risk of provoking strong reaction from the unions and precipitating similar consequences for the volume cars business as we faced for the whole of the BL Cars bargaining unit a few weeks ago.

In view of the necessarily tight timetable of events this week, I am writing to you before the Board has reached a decision so that you have time to consult your colleagues before we reach the point of sending letters threatening dismissal. What I am therefore seeking from you is an

\+ or perhaps in accordance with...../
our latest offer. U.

The Rt Hon Patrick Jenkin, MP 23 November 1981

assurance that, if the Board decides to support the initiatives planned by Cars management, Government will not intervene.

I should be grateful for your response by Thursday morning, 26 November.

Yours sincerely
Michael Edwardes.

xx Thursday may not be the deadline for the letter, in the event. However it would be prudent to base the decision procedure on Thursday, for target purposes.
(.

Correspondence with Geraint Morgan has been mis-filed. CAWayland. 13 Sept. 2012

10 DOWNING STREET

THE PRIME MINISTER

24 November 1981

Dear Geraint,

Thank you for your letter of 3 November about British Rail.

I was sorry to hear about the difficulties you have had. I know what great inconvenience this sort of thing can cause. I hope you are taking up your particular complaint with the railway managers.

In running a business like the railways, I agree that service to the customer must be paramount for the Chairman, within the inevitable constraints faced by any public sector industry. I understand your view that in such industries an insider is often best placed to fulfil this function. But, in the case of British Rail, these questions are academic at the present. We believe that we already have the best available Chairman, and that is why we have asked Sir Peter Parker to continue for a further limited spell.

Yours sincerely,

Margaret Thatcher

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

C.F. ~~NO~~ Yes it is!

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Recd CF 19/11

AJ 19/11

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

17 November 1981

Tyrefa PM/nl

MAP 19/11.

Dear Mike,

I enclose a draft reply to Mr Geraint Morgan's letter to the Prime Minister about British Rail, which you sent me with your letter of 10 November. Mr Morgan has made several earlier complaints to the Secretary of State's predecessor about difficulties he has met in using the railways. He has suggested that the right remedy was to remove Sir Peter Parker and appoint somebody else.

We believe that the Prime Minister will not want to accept Mr Morgan's suggestion that it will necessarily be better to have a chairman of the Board from within the railway industry.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

H/PSO/28553/81

DRAFT LETTER FROM PRIME MINISTER TO MR GERAINT MORGAN QC MP

1. Thank you for your letter of 3 November about British Rail.

2. I was sorry to hear about the difficulties you have had. I know what great inconvenience this sort of thing can cause. I hope you are taking up your particular complaint with the railway managers.

3. I am sure that giving a better service to the customer is a very important part of running the railways.
But the Chairman of the Railways Board has to deal with other problems as well. I am not at all sure that I agree with your view that a chairman from inside the industry would necessarily be better - that would very much depend on the man.

4. But these questions are of course academic at the present, since we have decided that the right course at this juncture is to ask Sir Peter Parker to continue for a further limited spell, and he has accepted.

1F

Ind. Pol.

10 DOWNING STREET

From the Private Secretary

10 November 1981

I enclose a letter to the Prime Minister from Geraint Morgan, M.P.

This is in response to the Prime Minister's reply to an earlier approach about the salaries of nationalised industry board chairmen in general. That draft was provided by the Treasury, but Mr. Morgan has now come back to the Prime Minister on the specific point of the quality of management in British Rail.

I should be grateful if you could let me have a draft reply for the Prime Minister's signature by Tuesday 24 November.

MP

Anthony Mayer, Esq.,
Department of Transport.

HL

10 November 1981

I am writing on behalf of the Prime Minister to acknowledge your letter of 3 November. I will place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

M A PATTISON

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

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

House of Commons,
LONDON SW1A OAA.

MO 19/R

3rd November, 1981.

Dear Prime Minister,

Thank you for your reply of the 27th October attached to my letter of the 3rd October about the salaries of Chairmen of Boards of nationalised industries.

I am bound to say that I am dismayed by what you say in the last paragraph of your reply, from which it can only be inferred that you consider that British Rail is being well managed. With the greatest respect, that is not, I am sure, the view of the huge majority of ordinary passengers, like myself, who have frequently to endure the frustration and misery of railway travel.

Let me give you just one example from my own experience, significantly enough, on the very day I received your reply. I had a most important meeting arranged that day with representatives of a firm who are striving hard to create more employment in my constituency - an unusual state of affairs anywhere in Britain these days! Because my train - incidentally, one of B.R's much-vaunted inter-city expresses - was 35 minutes late I was obliged to curtail the meeting, which should have taken about an hour, to less than half that time, in order to keep a later engagement at a Ministry.

That did not mark the end of my sufferings that day. I had to make an overnight journey from Euston and was told that I could board the train, and occupy a "sleeper", at 11.30 p.m. In fact, the train did not come in until 12.25 a.m., and in the meantime, along with dozens of other passengers, I just had to stand on the concourse. (The sole waiting-room was some distance away from our particular platform and was choc-a-bloc with people anyway, and the concourse boasts no seats.) No one of the B.R. staff at Euston had the courtesy even to come along and explain to us the reason for the delay. We were just treated like so many travelling animals, in the best B.R. tradition!

This sort of experience could, of course, be repeated a thousand-fold, and more, all over the country, and such a state of affairs is just not good enough. If the Government really feels that this reflects "good management" then I can only say with regret that it augurs ill for its prospects in the next General Election.

I cannot help feeling that a great deal of the trouble stems from the fact that, with the sole exception of Sir Henry Johnson, none of the B.R. Chairmen we have had since nationalization came to the job with any previous experience of running a railway. One was a rather undistinguished retired Genrral, and two, including the present one, were not very successful politicians. I cannot for the life of me understand why the job is not given to someone who has spent his life in the railway service. There must be plenty of people with such experience who would be pleased to take it on and, like Sir Henry Johnson, make at least a comparative success of it.

I find a curious inconsistency between the Government's policy in appointing B.R. Chairmen and the one it adopted - very rightly, in my view - in choosing a Chairman for the British Steel Corporation. In the latter instance, it went to a great deal of trouble - and, admittedly, a considerable amount of expense - to find someone who really knew the industry thoroughly. The wisdom of that policy has been proved by Mr. MsGregor's success in, at long last, making the Llanwern works, at least, really competitive by European steel production standards.

Yours sincerely,

Geraint Morgan

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

Ind Pol

JU

cc Mr Ingham
Mr Howe
Mr Scholar
Mr Duguid

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

2 November 1981

MAP 2/xi

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Mike

BL STRIKE

You might like to note that we have set up an Ops Room in Ashdown House, from which information on the latest state of play on the strike is available. The telephone numbers which will be manned from 8.00am to 8.00pm are:

212 5558
212 0759
212 0247

Copies go to the Private Secretaries of the following Departments: Home Office, Lord Chancellor's Office, FCO, Treasury, Paymaster General's Office, Lord President's Office, Employment, Defence, Lord Privy Seal's Office, MAFF, Environment, Scottish Office, Welsh Office, Northern Ireland Office, DHSS, Trade, Energy, Education, Transport and the Chief Secretary's Office. I would be grateful if these numbers could be made known to officials as necessary.

Yours ever

Catherine

CATHERINE BELL
Private Secretary

FILE Ind Pol

MR SCHOLAR

cc: Miss Stephens

BL

As I told you, Industry asked us to reserve a time tomorrow evening for a possible meeting on BL.

A ¾ hr meeting at 1645 is pencilled in the Prime Minister's diary. The Home Secretary, Industry Secretary, Chancellor and Chief Secretary are on notice for that time. The Employment Secretary is not due to return from Brussels until later in the evening, so we need to get Mr Alison. Other Ministers likely to be required are the Lord President, the Attorney-General, and the Chief Whip, but their offices were closed when I tried to contact them this evening to forewarn them.

M. A. PATTISON

2 November, 1981

MS

PRIME MINISTER

British Leyland

I have just had a further message from Patrick Jenkin's Private Secretary.

Contrary to the impression given by the news flash late last night, things went, apparently, wrong in the negotiation late on. Following the agreement between the managment side and the General Secetaries of the unions, principally Kitson, Boyd and Len Murray - the union side went along to the joint negotiating committee to persuade them to recommend the settlement to the workforce on Tuesday. I understand at that point Mr. Kitson reneged and that there was a very tense atmosphere at the negotiating committee.

There was then general dismay. Michael Edwardes was quite taken aback at this outcome.

The next step is for the TUC Finance and General Purpose Committee to attempt tomorrow to lean on Kitson and TGWU. In parallel in great secrecy Michael Edwardes will be attempting to persuade Messrs Foot and Orme to ~~be~~ lean on the TGWU.

In consequence there will be a very messy situation at Leyland plants tomorrow. The pickets are out, but with the disarray among the unions concerned there must be maximum confusion in the minds of the workforce. The assessment is many of them are likely to stay away on Monday.

I am on the other end of the telephone to talk if you wish at any time today. But there does not seem to be any action that can be usefully taken today. That is certainly Patrick Jenkin's view, who will be watching and waiting.

1 November 1981

MICHAEL SCHOLAR

PART 5 ends:-

31.10.87

PART 6 begins:-

1.11.87

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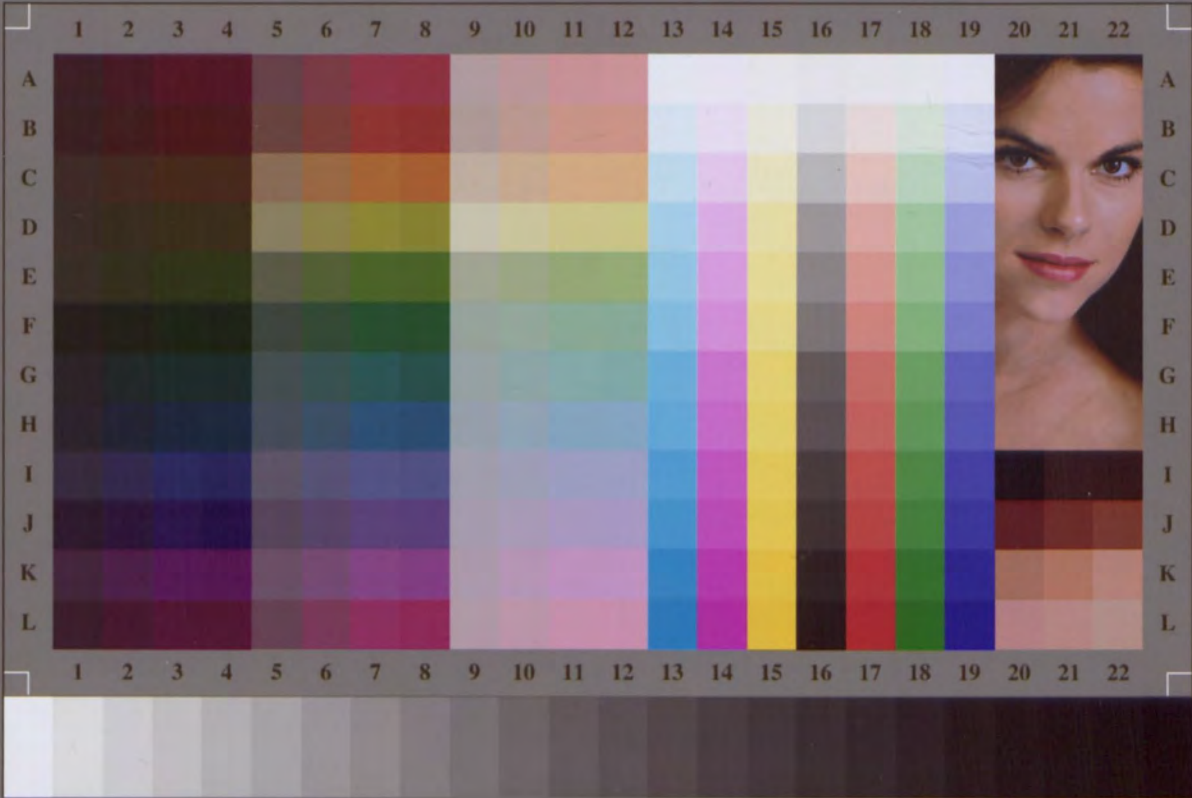

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