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Mr Wright (Clerk)  
Mr Robinson



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

12th March, 1980

Dear Tim,

BL CONTINGENCY PLANNING: GENERAL  
IMPACT IN FIRST TWELVE MONTHS

...  
The Chancellor thought the Prime Minister would be interested to see the enclosed report, produced by a group comprising officials of the Treasury and the Departments of Industry and Employment, under Arnold Lovell's chairmanship. You will appreciate that knowledge of the work has been confined to a very small number of people.

I am copying this letter to Richard Dykes and Ian Ellison.

Y. evr,

MA

(M.A. HALL)  
Private Secretary

T. Lankester, Esq.,

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13 MAR 1950

1. MR RYRIE

2. CHANCELLOR

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Financial Secretary  
Sir D Wass  
Sir A Rawlinson

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BL CONTINGENCY PLANNING: GENERAL IMPACT IN FIRST TWELVE MONTHS

The attached report by officials, which met under my chairmanship, assesses the effects of BL partial closures if the corporate plan is abandoned. I understand that the report will be shown to Sir K Joseph and Mr Prior. The purpose of the exercise was to assess the size of the potential additions to the estimates of the PSBR and changes in other main economic variables on which the Chancellor will base his coming Budget judgement. For this reason the report does not look beyond the first twelve months. In fact it now seems unlikely that anything dramatic will happen, if at all, before the autumn. By that time we shall probably have agreed to the NEB providing further tranches of £225m towards the corporate plan. The estimates can be adjusted to reflect the effect in 1980-81 if the plan is abandoned (say) in October.

2. The report assumes that a proportion of BL will survive - the main shut-down being at Longbridge and Cowley. This assessment reflects discussions with BL. The loss of BL jobs would be 79,000. Firms supplying the closing parts of BL will either themselves close down or shed labour, and the assumption is that they would add a further 79,000 to the loss of jobs. Oxford, the West Midlands and South Wales would be particularly hard hit. As an offset against this loss of 158,000 jobs 11,000 new jobs might result from a partial transfer of BL's market share to other UK manufacturers.

3. Increases in unemployment of this size, and heavily concentrated in areas which hitherto have enjoyed a measure of prosperity, are not easy to contemplate either politically or socially. It is likely to be some time before firms which go out of business are replaced by new manufacturing enterprises, although our analysis does not suggest that a shut-down of the order contemplated will produce conditions of economic catastrophe;

- In time the unemployed labour should be re-absorbed into new jobs, although there is likely to be little recovery in net employment in the first twelve months following the shut-down;
- and the effect on BL supplying firms should be manageable so long as the banks are prepared to increase their lending to those firms who will face immediate cash flow difficulties, but who have reasonable prospect of surviving after a period of adjustment. Some of this increase in bank lending will be matched by reductions in lending to those parts of BL which will be closed and to supplier firms which go out of business.

4. The estimates in paragraph 29 of the report show the effect of BL closures. In paragraph 8 of this cover note the figures are adjusted to allow for the point that closures on the scale of BL can be claimed to be already at least partially reflected in the short-term forecasts. Before making any adjustment for this kind of anticipation by the forecasters the increase in total public spending in the first year following the closures is put at £825m and the addition to the PSBR £1,275m.

5. A particularly worrying and incalculable aspect of the situation envisaged in the report is the uncertain impact on business and market confidence and trade union sentiment. The figures are large and beyond our experience, and pressure for a public statement of the effect of the closures on the post-Budget arithmetic can be expected. A major task for the Government will be to try to find some balance between:

- trying to reassure the public and the markets that the situation, while serious, should be kept in perspective. At the same time the Government must not appear insensitive to the hardship that will fall on large numbers of businessmen and employees;
- avoiding over-reacting through announcing remedial measures which could be costly without necessarily improving the situation;
- achieving maximum political value from the event by emphasising that it demonstrates how a work force which ignores the market for its products can put itself out of a job.

Relationship to the NIF Forecast

6. Since this was an interdepartmental exercise we were not able to discuss the extent to which the current NIF already implies a worse prospect for BL than that envisaged in the corporate plan. As noted above, insofar as this contingency can be claimed to be implicitly incorporated within the NIF the estimates produced in the report cannot simply be added to the forecasts.

7. The problem is that the NIF is not built up from a detailed analysis of the prospects for individual firms, and so there is no explicit forecast of BL output, employment and so on incorporated within it. However, the industrial implications of the forecasts are examined in some detail and are reflected in the Industrial Assessment System (IAS) report circulated at the end of February. The NIF assumes that output reductions and the adverse effect of overseas competition will be particularly marked in the manufacturing sector. The IAS forecast for the motor car industry within the sector is that demand will continue to decline in 1980 with imports taking a larger share of the domestic market than in 1979.

Reduced domestic demand and loss of competitiveness in overseas markets leads to a forecast of a fall in motor vehicle production of 10 per cent in 1980. Car output, which was 1.1 million in 1979 is expected to fall to about 800,000, a level which the report says "is unlikely to be compatible with all four majors remaining in volume production". But it nevertheless seems that closures on the scale envisaged in the report cannot be assumed to be fully reflected in the NIF.

8. The NIF implies that BL's contribution to GDP, including the impact on suppliers, is perhaps a quarter below that implied by the corporate plan. As a broad and crude approximation, therefore, it would seem reasonable to reduce the range of assumptions in the attached report by 25 per cent. On this basis the current NIF forecast would need to be changed as follows:

Estimated changes to February 1980 NIF Forecasts for 1980/81  
(assuming April shut-down)

	<u>£m</u>
Exports reduced by	300
Imports increased by	<u>750</u>
Balance of payments loss	<u>1,050</u>
Employment lower by	110,000
GDP lower by	0.5 per cent
Public expenditure higher by	650
Revenue lower by	350
PSBR higher by	1,000

9. This increase in the PSBR should have little effect on interest rates because the lower GDP implies a reduced demand for money. But paragraph 5 above draws attention to the uncertainties of these developments on market sentiment.

10. These are full year figures. Apart from the direct financing of BL and the payments under the Redundancy Payments Act the remaining major public expenditure and revenue items can be pro-rated.

Thus, as a broad approximation, if the plan was abandoned in October the PSBR would be £350m less than shown above.

Further Action

11. There are bound to be wide error margins involved in an analysis of this kind and the results can be taken as no more than a rough approximation of the likely immediate impact. The estimates could be further refined, but it is doubtful whether this would result in significantly different figures. The report in paragraph 31 does however suggest two further stages in contingency planning which we believe would be worth pursuing. The first is a more detailed assessment of the likely regional impact, and the effect on supplier firms and industries. The objective would be to provide the basis for a further step in contingency planning - an examination of possible action by the Government. The Whitehall responsibility for these issues lies with the Department of Industry, and if you feel that the work is worth pursuing the Department might be invited to set up the studies. However, we have a great deal of information in the Treasury, and we are putting in hand some preliminary studies which are relevant also to the wider contingency planning for industry recently commissioned. You might wish to wait for these before initiating further interdepartmental work.

ahj  
A.H. LOVELL - IA  
11 March 1980

## BL: CONTINGENCY PLANNING - THE FIRST TWELVE MONTHS

This report assesses the likely consequences in the first twelve months if BL's Corporate Plan is abandoned and the company closes down a major proportion of its operations. It was prepared under Treasury Chairmanship and officials of the Departments of Industry and of Employment took part. It is restricted to the effects on the main economic and financial aggregates and the discussion was not extended, at this stage, to an examination of the feasibility and costs of possible offsetting measures by way of regional, employment and other forms of assistance.

2. Ministers approved the Plan in December. It envisages that BL will close down a number of plants and reduce their UK workforce substantially in 1980 and 1981. They will undertake a major investment programme and launch a number of new models: notably the Metro (the Mini replacement) which starts production at Longbridge later this year; the collaborative venture with Honda on the Bounty which will be launched from Cowley at the end of 1981; and the new medium cars, the LC10 and LC11, which will be launched respectively from Longbridge in late 1982 and from Cowley in 1984. The Government has agreed to put in up to £300m in 1980-81; and there is public expenditure provision for a further £75m in 1981-82, although BL have not asked Ministers to approve their Plan beyond 1980-81.

3. Sir Michael Edwardes has said, in a letter published with Sir Keith Joseph's statement on 20 December, that his Board would abandon the Plan if it considered that shortfalls in performance, particularly in cash flow, placed its achievement in jeopardy. Even with the successful dismissal of Mr Derek Robinson, there is no doubt that the Plan is already under serious threat. BL have yet to settle the crucial wages and productivity deal for BL Cars. Their UK market share fell to 15% in January and, although it is now recovering, it is still short of the 20% for which they were aiming. Because of the current high level of stocks the steel strike has not yet damaged BL, but it would do so if it went on beyond the end of March. In these circumstances there remains a serious risk that BL will have to abandon the Plan at some time in 1980-81, although it now seems unlikely that this will arise in the next few weeks. Broadly, in respect of 1980-81 the estimates made in this report can be prorated.

## ASSUMPTIONS

4. We have assumed that if BL totally withdrew their Plan - as distinct from modifying it - they would not go into receivership or liquidation. Instead the present Board would continue and take on the task of selling operations where possible and closing down the rest.



5. For the purposes of this exercise we have taken as a realistic but cautious assumption that the following businesses could be sold and continue to operate:-

Land Rover  
 Jaguar  
 Alvis  
 Coventry Climax  
 Prestcold  
 Unipart  
 Leyland Vehicles (Trucks and Buses)

Some parts of BL Components and of Pressed Steel Fisher, which supplies body panels, would also have to be kept in operation to service these activities.

6. It is also possible that the MG works at Abingdon will be sold and that Honda could be persuaded to go ahead with the production of their car by acquiring part of the Cowley site. If this were to happen it would be of great importance for the Oxford area and could lay the foundations for building up Cowley again over a period of years. But in 1980-81 only about 5,000 jobs would be saved and since those numbers, and the consequent redundancy costs, are well within the margins of error we have not included them in the figures in the rest of this paper which are based on the assumption that the operations listed in the preceding paragraph will continue. A note as Annex A gives more details of the sales prospects of these operations.

7. There is no experience of closures on this scale. The estimates in this report need to be interpreted therefore with caution, and wide error margins should be attached to them. It is possible, for example, that the BL shut-down and the knock-on effect on suppliers could generate a crisis of confidence in manufacturing industry and in financial markets, domestic and overseas. We assume that this will<sup>not</sup> happen and that the effects will be confined to BL and companies closely associated with them, while other UK car manufacturers and, of course, overseas suppliers benefit from BL's misfortunes. So long as the effects are contained within this kind of scenario the implications, although serious, appear to be manageable. Apart from this major uncertainty much of the estimating cannot be claimed to be more than informed guessing. There are doubts for example over which operations in BL will survive and also over how much BL may get in sales or from break-up values. There are doubts whether customer confidence even in the saleable parts can be held. It is possible that the company could be faced with highly costly disruptive action from workers defending their jobs. This would make orderly rundown much more difficult. To alleviate the situation and re-establish control,

BL could be forced to make higher redundancy payments than are required by law and than are assumed in these estimates.

## EMPLOYMENT

BL

8. At the end of 1979 there were about 144,000 BL employees in the UK. The Plan assumed that employment would have fallen to 140,000 by the end of 1980 (and by 5,000 more if Special Products Industries, mainly Prestcold, can be sold by the end of the year). If the Plan were withdrawn, and only those operations listed in paragraph 5 above survived, of this 140,000:-

61,000 BL jobs would be preserved  
79,000 would be lost.

9. The distribution of the 79,000 redundancies would be

Birmingham	39,000
Oxford	15,200
Coventry	8,700
Swindon	3,800
Cardiff	700
Llanelli	3,400
Liverpool	1,000
Other	7,200
	<hr/>
	79,000
	<hr/>

Birmingham and Oxford would be particularly affected because of the closure of the Austin-Morris works at Longbridge and Cowley and of Rover and Triumph at Solihull. The 7,200 "other" redundancies include company staffs and would be spread widely (including Abingdon, Dunstable, Hemel Hempstead, Leicester, West Yorkshire and London) but none would be more than 1,000. There would be no redundancies in Scotland, assuming that the Bathgate plant near Glasgow were sold with the rest of Leyland Vehicles.

10. It is to be expected that some of this employment loss would be taken up by other UK indigenous car manufacturers. The take-up of market share is extremely difficult to predict, but in order to arrive at our estimate we have made the following assumptions:

- i. BL's exports of the non-viable activities are lost to the UK;
- ii. replacements for Rover/Triumph will all be imported since there are no domestically produced competitor models;
- iii. the Austin/Morris market will be replaced by UK manufacture in proportion to the 1979 share of the non-BL market ie 31%;
- iv. the total demand for cars in the UK will be unchanged by the collapse of BL.

11. On these assumptions 5,700 jobs would be created in the remaining UK car manufacturers (if it is further assumed that the additional output is produced by additional labour rather than through overtime). This estimate must be extremely tentative and may be optimistic: BL's lost market share over recent years has been almost entirely taken up by imports; Ford continue to have difficulties in recruiting labour at Dagenham; the multi-nationals are generally reluctant to increase capacity in the UK especially when their more efficient Continental plants are on short time working.

#### Suppliers

12. It is difficult to assess what would be the effect on employment in firms supplying BL. But, using the broad assumption that for every one BL employee there is one other person indirectly dependent on BL elsewhere in the economy, there would be a further 79,000 redundancies outside of BL. Using the same 1:1 relationship, if 5,700 jobs are created by other UK car manufacturers (see preceding paragraph) a corresponding 5,700 might be saved in the supplying firms. Thus, the total redundancies in BL and the suppliers would be in the order of 158,000, offset by about 11,000 new jobs, to give a net total of 147,000.

13. There is considerable uncertainty about the number of jobs likely to be lost in the suppliers, since the initial job losses could be either magnified or reduced depending on the situations of the companies concerned. Two broad types of outcome can be identified. Some firms heavily dependent on BL will collapse quickly, thus magnifying the initial job loss, and some more could collapse later though perhaps not in the first year. Other firms, while initially dependent on BL for a significant share of their business, may be able to contract successfully and in time diversify. In these latter cases the initial job losses may in time be reduced. In the case of all supplier firms the initial effect of the closures will be to create a cash flow problem and in each case survival may depend on a solution being found to this immediate difficulty.

14. The possibility of survival in the long run will depend on the extent to which these companies are dependent on those parts of BL due for closure. In some cases closure of the source of demand will not necessarily mean an immediate drying up of demand. Suppliers will still need to provide replacement parts such as tyres and batteries for the existing stock of BL cars. This, and the continuing production of vehicles by the BL companies which we have assumed continue in operation, may help to tide the suppliers over the initial period following closure. In considering the effect of a partial BL collapse it is worth bearing in mind that the weaknesses of BL have not been missed by their main suppliers and that a number of the larger firms have been taking defensive action by trying to diversify.

15. Our best guess at the present time is that most of the bigger firms will probably survive, assuming that they are reasonably credit-worthy and can increase their short-term borrowing when the closures take place. But this may not be true of a number of smaller specialist firms, some of which may be completely tied to BL output. For example in the West Midlands there are some 850 firms identified as suppliers to BL, but most of the business is accounted for by 50 major firms. A significant proportion of the smaller, highly dependent firms are likely to go out of business altogether. Indeed the regional problem seems to be essentially centred in the West Midlands as well as Oxford and, to a lesser extent, South Wales. Unemployment ratios would more than double in these areas. The likelihood of closures may also raise wider issues of national interest, if the rundown of certain sectors leaves the UK with less capacity than is needed to serve other firms and industries.

#### BALANCE OF PAYMENTS

16. The balance of payments consequences are much more difficult to estimate than the consequences for unemployment because we do not have data on BL's exports broken down by product to correspond to the operations listed in paragraph 5, nor do we have direct and indirect import content on this basis. The assumptions we have had to make are therefore more sweeping than for the employment effects. In many cases we have apportioned exports and both direct and indirect import content in proportion to output, although we have used hard figures where they exist. We have also had to assume that relationships between direct and indirect imports and sales for 1978 will apply for 1980 and that exports and hence sales for 1980 will be as given in the BL Corporate Plan. This latter assumption may not be realistic. The assumptions underlying BL's market share take-up by other

UK car manufacturers are as given in paragraph 10 for the employment estimates.

17. The balance of payments effects in the first twelve months following a partial BL collapse would be:

	£ million 1980 prices	%
Direct exports lost	413	= 1.2 of exports of manufactures
<u>Minus total imports avoided</u>	<u>-288</u>	= 2.0 of imports of semi manufactures
Net exports lost	125	
Replacement of home sales	1225	= 3.7 of imports of manufactures
	<u>1350</u>	= 0.67 of GDP

#### GDP

18. The net worsening of the overseas trade account is assumed to provide for the whole of the GDP loss caused by the closures and its effect on suppliers, ie 0.67% of GDP. No provision is made in the estimate for losses of income leading to reduced domestic demand and therefore to further losses of output and jobs - in effect we have assumed that the income multiplier effect of the closures and their repercussions will be zero. In fact there will be such effects but we believe they will be small and to some extent offset by other measures. The multiplier is likely to be small because the loss of personal disposable income for the unemployed in the first twelve months will be contained by redundancy payments, use of savings and reduced savings. (PDI of the additional unemployed is assumed to fall by no more than a fifth.) There may also be some offsetting rise in net output because of the availability of additional skilled labour.

## PUBLIC EXPENDITURE AND PSER IMPLICATIONS

19. If BL were to collapse the public expenditure and PSER costs would fall into three broad groups:-

- i) the net deficit remaining after the break up of BL;
- ii) those consequent on the redundancies in BL and elsewhere;
- iii) any offsetting measures.

This report discusses (i) and (ii). We propose further work on (iii) at the end of the report.

BL Closure Costs

20. We estimate that the public expenditure and PSER costs of meeting the net deficit after sales and closures could be in the range of £175-£650m over a three year period:

		£m 1980 prices	
	Annex	High	Low
Proceeds of sales as going concerns B1		450	285
Realisation of other assets less liabilities B2	B2	278	58
Closure costs B2	B2	(371)	(449)
Repayment of borrowings		(534)	(534)
		<hr/>	<hr/>
Net deficit		(177)	(640)
		<hr/>	<hr/>
Rounded		(175)	(650)
		<hr/>	<hr/>

21. However, as the three year cash flow figures in Annex B5 bring out, the net deficit over the period is made up of a very large outflow in the first year partly offset in the later years by inflows from disposals. In assessing the public expenditure costs in the first year two difficult judgements are necessary.

22. First, the Chancellor and the Secretary of State for Industry have already agreed in principle that the outstanding private sector borrowings by BL and their overdraft facilities could be guaranteed if necessary and where possible. If this were done only some of the £534m borrowings shown in Annex 3 would be repaid immediately. In advance of negotiations with the lenders, it is difficult to estimate what would happen. But if we assume that £250m could be guaranteed

(mainly the overdraft borrowing) the net outflow in the first year would be reduced to the order of £550m-£775m. The £250m guaranteed borrowings would be repaid out of disposals receipts in the later years.

23. Secondly, there is already provision for public expenditure on BL of £300m in 1980-81 (and £75m in 1981-82) and some of it is earmarked by BL for meeting closure costs. If the Plan were withdrawn now it would be reasonable to assume that all of this £300m was available towards the net costs in the first year. If it were withdrawn in, say, 6 months time the position would be complicated by the further capital expenditure which would have been committed in the period. Much of this would be wasted, in so far as it was in operations which then had to close. But the value of operations which could be sold as going concerns could be increased.

24. If the full £300m were available to offset the total of £550m-£775m the net additional public expenditure in the first year would be £250m-£475m. Since in practice some of the £300m will have been spent, and assuming an outturn towards the top end of the range, a working assumption for the net requirement is £500m in the first year (but there are obviously very wide margins of error here).

25. It would also be necessary to consider at the time how best to cope with the peak outflow in the first quarter. Some of it could probably be met from additional bank borrowing under guarantee. But this could lead to difficulties with constraints on bank lending and it might be necessary for the Government to inject some short term loans. If this were to happen, and if they were repaid within the same financial year, there would be no net additional public expenditure on this account.

#### Redundancy costs

26. The jobs lost by the partial closure of BL would eventually be replaced, leaving no permanent increase after a number of years in the general level of unemployment. But job replacement would take time. The initial job loss might be amplified in the short run by income multiplier effects, although as explained in paragraph 18 no provision is made for this in the estimates. Such scanty information as is available about job replacement time paths in areas of high unemployment suggests that some part of any initial job loss would be likely to have been made good by the end of 12 months. In the circumstances envisaged the job losses would be concentrated in a few towns and they would take place at a time when the unemployment figures were likely to be particularly high and the economy generally is depressed. The extent of net job replacement during the first 12 months might therefore be unusually modest. As an average for the 12

months as a whole the assumption made here is that, apart from the 11,000 or so jobs in other UK manufacturers referred to earlier, the whole of the initial job loss applies.

27. We assume that 41% of redundancy payments, both for BL and for suppliers which remained solvent, would be refunded from the Redundancy Fund (though initially the Fund would bear the full cost of these and certain other payments to workers at firms which became insolvent); that 90% of the workers made redundant would qualify for redundancy pay; that the average redundancy pay received by each of the 90% who qualified for it would be £1280. We also assume that the subsequent net Exchequer costs per man in the first year are £4,500, of which £1,500 is unemployment and supplementary benefit and £3,000 a reduction in receipts from taxation and national insurance.

28. There could be additional public expenditure and PSBR costs if suppliers, or BL themselves, made use of the Temporary Short Time Working Compensation Scheme which has been recently extended to the end of March 1981. This scheme provides for compensation to be paid (of, broadly speaking, 75% of the normal pay of the workers covered, for each day they are without work, plus National Insurance contributions) to employers who are prepared, in agreement with any appropriate trade unions, to adopt short time working as an alternative to implementing redundancies affecting 10 or more workers. Payments are made for a maximum of six months. The effect is to enable a firm to reduce its wages bill temporarily to the full extent of any shortfall in demand, without bearing the costs and dislocation of redundancies which in the end may not be necessary. If firms did use the scheme to avert more redundancies than those discussed above, the public expenditure cost of it could be in the order of £60m. But the net cost would be only about £25m because of the further redundancies avoided.

29. Total (BL's net deficit plus redundancy costs)

On this basis the first year costs would be in £ million at 1980 prices:

(i) Extra direct funding of BL	500	(paragraph 24)
(ii) Under Redundancy Payments Act	80	
(iii) Unemployment and supplementary benefits	220	
(iv) Short Time Working Scheme (net)	25	
(v) Total public expenditure	825	
(vi) Tax and NI contributions lost	450	
(vii) Total PSBR	1275	



## SUMMARY

30. If the BL Board were to withdraw their 1980 Corporate Plan and only those operations listed in paragraph 5 above survived the main effects in the first year might be:

- (i) 147,000 net redundancies (half in BL itself);
- (ii) £1350m total balance of payments loss;
- (iii) 0.67% loss of GDP;
- (iv) additional public expenditure of £825m;
- (v) addition to the PSBR of £1275m.

The public expenditure and PSBR costs, which are tabulated in paragraph 29, will increase in so far as offsetting measures are introduced. But, as has been stressed throughout this report, they are subject to wide margins of error and to uncertainties over phasing.

31. If Treasury Ministers feel that the contingencies envisaged by this report need further examination we recommend:

- i. Further work on the specific consequences of closures, and identification as far as practicable of the firms and sectors most at risk and their regional distribution; and
- ii. a detailed study of possible offsetting measures, of the case for them, and of the likely public expenditure and PSBR implications.

IA Group  
Treasury  
10 March 1980

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SALEABILITY OF THE BL GROUP CONSTITUENT COMPANIES

A. GOOD SALES PROSPECTS

1 Land Rover

This is a substantially self-contained operation, although certain facilities are on sites shared with Rover and Triumph at Solihull. A few stampings and components would have to be resourced if other parts of the BL Group did not continue, but the majority of components are unique to the Land Rover vehicle range. The company is profitable and generates a positive cash flow after interest and tax. This trend is forecast to continue during the £160 million expansion programme currently under way. Land Rover has a successful model range, and a strong position in developed and Third World markets: the latter strength is thought to be an incentive for any potential purchaser seeking access to the more difficult markets, for example, in Africa. The company has its own engineering and sales staff but no component purchasing or financial organisation.

2 Jaguar

The major selling point is the reputation of the marque for top quality engineering and the success of the current saloon and sports models. Jaguar has good potential for profitability but despite high contributions per vehicle is currently a user of cash because of low volumes and the cost of developing a new engine and body. The operation is self-contained in terms of assembly, engines, gearboxes and certain other components but some stampings could pose difficulties and the paint shop would require investment. Most important Jaguar has no self-contained body-building operation: this would have to be found. Staffing is nearly complete, including engineers who are regarded as vital to the company's future. There is no separate sales team. Potential buyers are generally limited to the small number of motor companies which have no prestige cars or whose own product is relatively weak.

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3 Parts

This is self-contained and would need to be continued in some form or other to supply the still large BL car pool. Long term potential is provided by the possibility of shifting from BL parts production as demand falls away to an "all makes" parts philosophy. But this will be a difficult operation to plan and administrate. Currently Unipart is profitable and generates a positive cash flow.

B. SELF CONTAINED SUBSIDIARIES

1 Alvis, Coventry Climax, Prestcold

These are all self-contained subsidiaries currently operating with a fair degree of success and are not consumers of cash. It is thought that they could continue in existence until such time as buyers are found.

C. OVERSEAS OPERATIONS

1 Seneffe, Belgium

This would be an expensive plant to close because of Belgian labour laws. The preferred option would be to identify a manufacturer lacking capacity in Europe and able to take on this unit as a whole.

2 Ashok, India

This operation is self-contained and is only 51% BL-owned. It could give a buyer wide access to the Indian and Far East markets and, subject to Indian Government approval, should not be difficult to sell.

D. OTHER BL COMPANIES

1 Leyland Vehicles Limited (LVL)

This should be saleable in some form, but the desirability of the company's elements is variable. The heavy trucks are concentrated in Leyland, Lancs. The operation is virtually self-contained, a new model is just coming on stream and there is also a new assembly hall and test facility. Medium and light trucks are a less attractive proposition, thanks to the ageing model range and over-capacity at the Bathgate factory, but operations could continue while a purchaser is found for LVL as a whole. Bus production is divided into "sophisticated" models for

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the UK market and truck-based models for developing country markets: the former could be continued profitably but the latter's future would depend on whether medium and light truck production continued at Bathgate. As a company LVL has a record of low profits and substantial cash absorption: this sharply limits the potential sale price of the company.

2 Cowley

This plant currently assembles the Princess, Marina and Maxi models, all of which are due to be phased out in the fairly near future. But the plant has also been designated as the base for BL production of the Honda car: in the event of a calamity befalling BL it is thought possible that Honda may consider going ahead with production of their car by acquiring a part of the Cowley site. The latter includes self-contained body, paint, assembly and (with some investment) stamping facilities. Engines and gearboxes are already planned to be sourced from Japan. However heavy investment would be needed for mechanical unit production facilities and for a new paint shop. Such investment could be profitable but Honda's eventual decision will depend upon their judgment as to whether the time is opportune to set up manufacturing within the EEC and whether the risk of investment in the UK is worth taking.

3 Abingdon/MG Marque

BL are currently negotiating with a consortium led by Aston Martin the possible sale of the Abingdon plant and MG model. Details of the initial Aston Martin bid and the present position of negotiations have not been disclosed. It is not yet clear whether BL are prepared to include the Abingdon plant in any finally agreed package.

E. THE REMAINING BL GROUP COMPANIES

Certain other small parts of the BL Group have been identified where sales might be expected at nominal values to offset closure costs. But it is thought that generally Austin Morris, Rover, Triumph and sports cars would not prove attractive propositions for potential buyers. Small parts of the Foundries and the Pressed Steel Fisher operations would need to be retained as a central service if a number of units as outlined above were kept in operation with a view to sale.

SALES AS GOING CONCERNS

	<u>HIGH</u> <u>£M</u>	<u>LOW</u> <u>£M</u>
<u>Sales proceeds:</u>		
LAND ROVER	200	150
JAGUAR	22	14
PARTS	106	77
ALVIS	12	9
COVENTRY CLIMAX	4	3
PRESTCOLD	6	4
SENEFFE	10	20
INDIA	10	8
IVL	50	-
COWLEY	-	-
	<u>450</u>	<u>285</u>

BREAK-UP VALUESUNITS NOT TO BE SOLD AS GOING CONCERNS

	Net book	Realisable in liquidation	
	value @ <u>30/11/79</u>	<u>HIGH</u>	<u>LOW</u>
	£M	£M	£M
<u>FIXED ASSETS:</u>			
Land and buildings	127	86	57
Plant and equipment	238	56	22
Special tools	39	2	1
Investments	<u>11</u>	<u>10</u>	<u>5</u>
	415	154	85
	—	—	—
<u>INVENTORIES:</u>			
Vehicles	380	287	219
Distributors deposits	( 96)	( 96)	( 95)
Parts	60	70	60
WIP/Other	<u>181</u>	<u>59</u>	<u>22</u>
	525	320	205
	—	—	—
DEBTORS	194	162	126
CREDITORS	(358)	(358)	(358)
NET TOTAL	<u>776</u>	<u>278</u>	<u>58</u>
	—	—	—
<u>CLOSURE COSTS:</u>			
Run-down costs		( 30)	( 60)
Cancellation of contracts		(145)	(195)
*Redundancy costs	(240)		(240)
Less: HM3 rebate of 41%	<u>44</u>	(195)	<u>44</u>
		<u>(371)</u>	<u>(449)</u>

\*Assuming BL will not go into receivership or liquidation they will bear 59% of payments to employees under the Redundancy Payments Act and 41% will be paid to them from the Redundancies Fund. The redundancy costs shown here also assume that EL workers made redundant would receive 10 weeks pay in lieu of notice.

THREE YEAR CASH FLOW

(OUTFLOW)/INFLOW IN £M

	<u>TOTAL</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<u>A. HIGH</u>								
Assets less closure costs	( 93)	(443)	50	86	40	(267)	134	40
Borrowings	(534)	(534)	-	-	-	(534)	-	-
Sales proceeds	450	-	-	-	-	-	200	250
	(177)	(977)	50	86	40	(801)	334	290
<u>B. LOW</u>								
Assets less closure costs	(391)	(505)	( 18)	20	11	(490)	73	26
Borrowings	(534)	(534)	-	-	-	(534)	-	-
Sales proceeds	285	-	-	-	-	-	150	135
	(640)	(1037)	( 18)	20	11	(1024)	223	161

\*In so far as these borrowings can be guaranteed their repayment could be deferred to years 1 and 2. It is assumed in the main report (paragraph 22) that £250m might be guaranteed and so deferred.