

FROM SIR MICHAEL EDWARDS

19 December 1979

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

I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well.

Yours

LONG-TERM OBLIGATIONS ON BL UNDER HONDA AGREEMENT

- 1 The Agreement is to last for 5 years from the date on which BL commence commercial production.
2. So long as the Agreement lasts, BL are committed to make minimum royalty payments of some £6M over 3 years irrespective of the level of sales.
- 3 BL are obliged to maintain for 10 years an adequate supply of spare parts in relation to Honda-supplied components.
- 4 BL are required to order Honda kits for assembly 6 months ahead and Honda spare parts 4 months ahead.
5. If there is a drastic reduction in sales of other Honda cars in Europe which is not matched outside Europe, Honda may require BL to produce on Honda's behalf additional quantities of the LC9 to be sold by Honda in Europe. The two companies would discuss the appropriate sharing of the costs.
6. Either party can terminate the Agreement in a variety of specified circumstances. These include liquidation of BL, cessation of majority share ownership in BL by HMG or its agency, major delays to the start of component supply from Japan and rejection by the EEC. BL are obliged to make minimum royalty payments in the event of termination from any cause.

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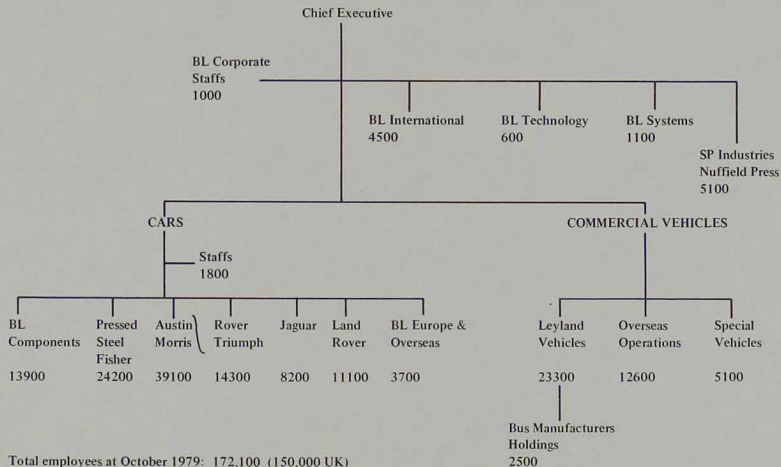


BL - PRESENTATION TO THE PRIME MINISTER

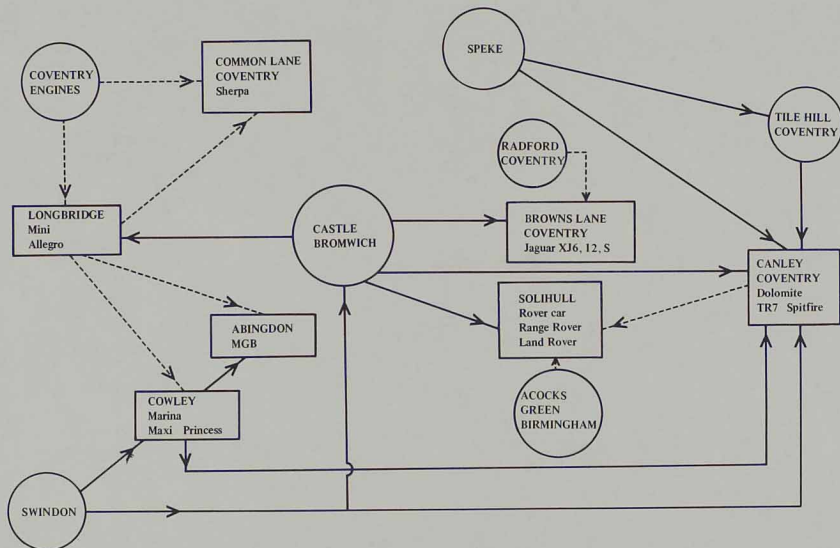
19 DECEMBER 1979

COMMERCIAL IN CONFIDENCE

BL : ORGANISATION CHART (1979)



BL CARS : MAIN PLANTS

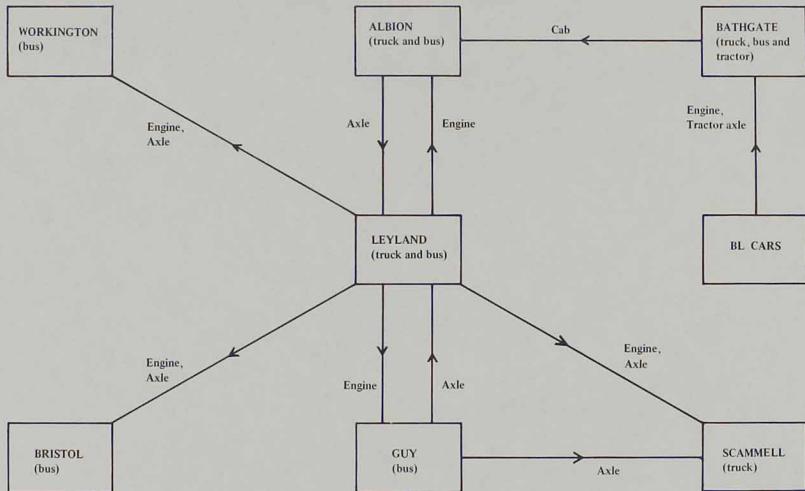


NB This chart shows only the movement of bodies and engines; it excludes all other major and minor components made in BL plants

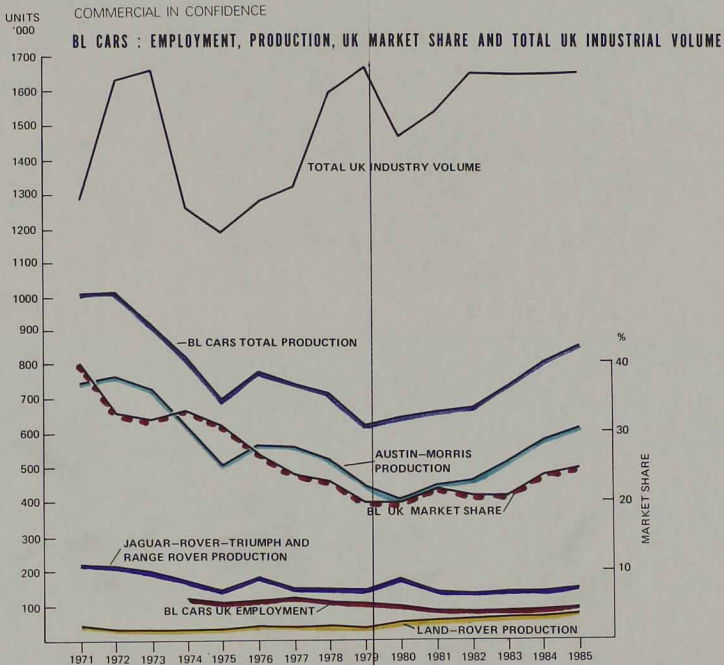
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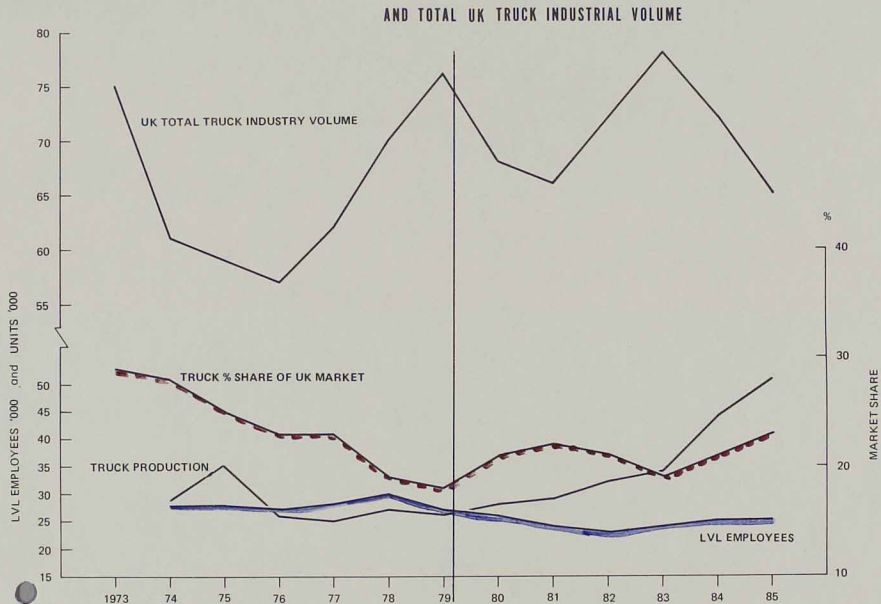
- Assembly Plant
- Component Plant
- Supply of pressings and bodies
- - - → Supply of engines

BL LEYLAND VEHICLES : MAIN PLANTS

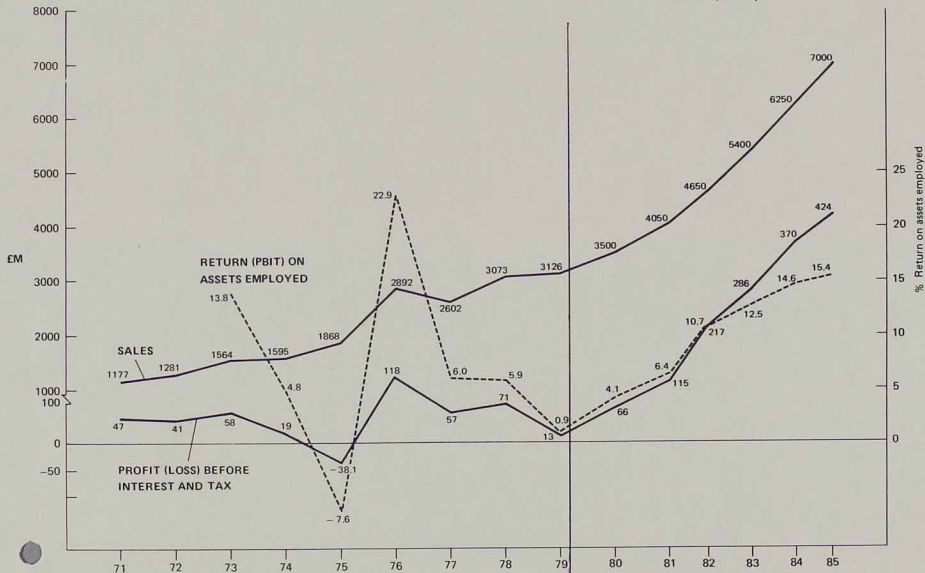


N.B. This chart shows only the movement of Engines Axles and Cabs. It excludes other major and minor components received from BL Cars plants and other LVL plants





BL : SALES, PROFIT (LOSS), AND RETURN ON ASSETS EMPLOYED (Current prices)



MAIN FEATURES OF 1980 PLAN

- REALISM
- REDUCTION OF FIXED COSTS
- REDUCTION OF MANPOWER
- ACCELERATED INTRODUCTION OF NEW MODELS
- RATIONALISATION OF MODELS, ENGINES, GEARBOXES
- EFFECTIVE AND CONTINUOUS WORKING BY INCENTIVES AND FIRM MANAGEMENT
- REDUCTION OF WORKING CAPITAL, ESP. INVENTORY

Objectives

Return to trading profit in 1980
 Return on assets passing 10% in 1982 (present financial duty 1981)
 -do- 4 15% in 1985 4
 Positive cash-flow in 1985

- ① Strong $\frac{1}{2}$
- ② New models
- ③ Disposal

COMMENTS ON 1980 PLAN

MORE RISKS THAN OPPORTUNITIES:

- A - INABILITY OF MANAGEMENT TO ACHIEVE PLAN PERFORMANCE
- B - LACK OF WORKFORCE CO-OPERATION (LINKED WITH A)
- C - INADEQUATE TECHNICAL RESOURCES
- D - ECONOMIC FACTORS
- E - FAILURE TO HOLD/ACHIEVE MARKET SHARE
- F - LOSS OF CONFIDENCE

SENSITIVITIES:

CARS UK MARKET SHARE	- 1%	=	PBIT	- £17M
ONE WEEK TOTAL STRIKE		=	PBIT	- £25M
UK CAR MARKET	- 5%	=	PBIT	- £17M
PRICING SHORTFALL	1%	=	PBIT	- £22M

OFFICIALS' ASSESSMENT : CHANCES OF SUCCESS <50%

1980 CRITICAL YEAR

COMMERCIAL IN CONFIDENCE

BL FUNDING REQUEST

- A Remaining £225M of 'Ryder' £1000M as equity in 1980
 B Govt to bear special reconstruction and redundancy costs totalling £205M 1980-84
 C Existing £150M of loans to be converted to equity in 1980 →

ANNUAL INCIDENCE OF FUNDING/PES PROVISION

	1	2	3	4	5	6	7
	Reconstruction	BL REQUEST Interest forgone on loans	Other	Total	PES Provision	Excess over PES Provision	Charge on Contingency Reserve *
1980-81	72	22	225	319	150	169	130
1981-82	93	22	—	115	75	40	28
1982-83	13	22	—	35	—	35	22
1983-84	27	22	—	49	—	49	30
TOTAL	205	88	225	518	225	293	210

Cash

* = Col 6 in
1979 Survey
Prices

→ 169

RESULTS OF REFUSAL OF SUPPORT (OPTION A)

- BL Board resign
- Crisis of confidence - customers, dealers, suppliers, collaborators, workforce, management, banks
- Liquidator sells off assets at knock-down prices
- Loss of net exports £250M (out of current £500M); extra imports of £1400M (BL's current sales £1700M)
- Loss of employment 100,000 (out of 150,000) in BL and further 100,000 (out of 150,000) in suppliers :
concentrated in Oxford and W Midlands

ESTIMATE OF PES COST £500M - £1400M : TOTAL PSBR EFFECT £700M - £2100M IN FIRST YEAR

Make-up of central estimates as follows:

- Excess of BL liabilities and closure costs over proceeds of disposals	£400M
- HMG Rebate of BL and supplier redundancies	£100M
- Cost of SDA status for hard-hit regions	£100M in Year 1
- Additional benefit payments resulting from increased unemployment	<u>£300M in Year 1</u>
TOTAL PES cost	£900M
- Other Exchequer costs (principally tax and NI contributions forgone)	<u>£500M in Year 1</u>
TOTAL PSBR effect	<u>£1400M in Year 1</u>

ALL ABOVE ASSUMES PART OF BL'S OPERATIONS SOLD AS GOING CONCERNS, PART OF BL'S MARKET SHARE TAKEN BY OTHER UK FIRMS, SUPPLIERS FIND NEW OUTLETS FOR PART OF OUTPUT

WORST POSSIBLE CASE : PES COST UP TO £2000M, PSBR EFFECT UP TO £3000M

POSSIBLE VARIATIONS ON PLAN

N.B. BL BOARD CONSIDER PLAN OFFERS ONLY HOPE OF VIABILITY (Board attitude crucial)

WITHDRAWAL FROM VOLUME CARS (AUSTIN MORRIS)

- JRT not necessarily better prospect than AM
- AM accounts for 26% of total BL UK manpower (end 1979)
- closure of AM therefore costly and serious
- JRT might not be able to survive independently of AM
- if JRT fails, total effect not far short of Option A

ALTERNATIVE MID-CAR STRATEGY

- all possibilities impractical or would seriously reduce profits
- cost of new models largely cost of modernizing plants

DISPOSAL (1) LVL

- fructification of capital investment
- collaborative deals under negotiation
- effect on Group finances
- purchaser ??

(2) OTHER

- £50M from non-mainstream activities assumed
- Land Rover (part or whole) generates profits and cash

FURTHER COLLABORATION

- need accepted by BL
- Honda: LC 9 and beyond
- engines and components

OFFICIALS CANNOT SUGGEST LOWER COST ALTERNATIVE TO PLAN WITH EQUAL CHANCE OF VIABILITY

IF FUNDS PROVIDED, BUT PLAN FAILS.....

- Strong probability in view of downside risks
- BL Board will not hesitate to call a halt
- BL Board will collaborate in trying to achieve controlled rundown and break-up

ADDITIONAL COST

if BL operated for a year more, trading at a loss:

- Value might have declined by £90M – £320M
 - BUT – prospects of sale of parts of BL (eg LVL, Land Rover) should have improved
 - rundown should be more controlled and orderly
 - therefore costs of rundown should be in *lower* part of
 - Option A ranges (PES: £500M – £1400M
PSBR: £700M – £2100M)

OVERALL COST TO HMG OF A YEAR'S FURTHER OPERATION FOLLOWED BY RUNDOWN PROBABLY NOT GREATLY HIGHER THAN OF OPTION A (REFUSAL OF FUNDING)

THE CHOICE AND THE CONSEQUENCES

