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FROM SIR MICHAEL EDWARDS

15th May 1980

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

M. Bowler

PS/13
12/11/14

Mr. Mendenhall

Mr. Black
Mr. Mountford
: Mr. Learning

ASAP

Lee Carter 7 State

I have now had the opportunity of consulting my Board about your letter of 15th April. Further work has also been done (in conjunction with your Department and the Treasury) to identify appropriate economic assumptions for the period of the Plan.

While we still expect to operate within the agreed Government cash limit in 1980, the Board is at this stage quite unable to express a view as to whether it is possible to attain the objective of achieving long-term viability. We have three main reasons for caution:-

1. There are wide variations in the economic assumptions which are being made by various experts for the period of the Plan. In particular the possible variations in the rate of inflation, the exchange rate and the level of demand produce a very wide range of possible outcomes for BL in terms of profit and cash flow. For example, we could say with reasonable confidence that, on the economic forecasts of the London Business School, we should be able to keep broadly to our funding limits and return a profit in 1981.

But our projected results are highly sensitive to the substantial differences between the LBS forecasts and less favourable assumptions, so it would be unwise to rush into a firm assessment, before we are even halfway through 1980. We are now refining our own working assumptions for the 1981 Corporate Plan in the light of discussions with DOI and Treasury officials.

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2. Much depends on progress in 1980, not only on industrial relations, but in our new product launches - principally Roadtrain (already launched), the Morris Ital (facelifted Marina) in the summer and Metro in the autumn - and on collaboration with other manufacturers. We have had a complex situation to deal with, and we need to solve further major problems and seize the opportunities of 1980 before we can form a clearer view of the prospects for 1981 and beyond.
3. The 1980 Plan is composed of hundreds and even thousands of actions, many of which may be subject to considerable revision. Although the broad strategy remains intact, we have already revised the Plan in certain important respects, including bringing forward the closure of Canley at further cost to 1980. The complex process of preparing our 1981 Plan is just beginning.

During the next few months, we shall have the opportunity of reviewing our proposed actions in the light of our performance and particularly the forecast availability of cash; in particular we are now considering options on the LQ10 programme which might enable us to spread our cash needs without fundamentally changing the strategy.

It would therefore be a mistake, in our view, to try to make predictions now based on long-term forecasts which may have little or no validity by the time that we submit our 1981 Corporate Plan for your consideration.

I must, however, reiterate the following assurances which I have already given about our shorter-term position:-

- a. In the present circumstances we do not envisage seeking extra cash from the Government above the agreed funding limits for 1980, although our margins are very tight, especially in relation to the ratios in our medium-term loan agreement. As you know, we are calling for funds during 1980 somewhat earlier than was originally envisaged

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- b. None of the actions which we are taking in 1980 is expected to damage our prospects of longer-term viability - indeed they are intended to make a positive contribution towards long-term as well as short-term objectives.
- c. Your Department will continue to be kept in close touch with our financial forecasts and with the preparation of our Corporate Plan, so that you would receive early warning of any unavoidable cash problems.
- d. The Board adheres to the assurances I have given you that, should we consider it necessary to abandon the Plan, we would initiate immediate discussions with the Government before taking any action.

Finally, we are, as you know, continuing to cooperate with the Government in contingency planning, subject to the recognition that there are limits to the actions which can be taken prior to the event without jeopardising the changes of saving the existing business.

I understand that we shall meet at an informal dinner next week, when I shall be in a position to elaborate on this letter as necessary.

Yours sincerely,
Michael Heseltine.