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FROM SIR MICHAEL EDWARDS

18th March 1980

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

TO Mr Hagestad	COPIES TO
FOR ADVICE (AND DRAFT REPLY IF CORPORATE)	PS/AB PS/MM See M. Lufft
PLEASE BY:	Mr Butler Mr Bell Mr Lufft
A 544	

New Secretary of State

On 12th March the Board considered the company's current position and has asked me to provide you with its conclusions. In making this review the Board has considered the Corporate Plan, my letter to you of 19th December last year and our discussion of priorities on 16th February in which it was agreed that the overriding criterion for judging the company's position was its ability to stay within the approved Government funding limits.

First it seems clear that, while BL should meet the Plan on Commercial Vehicles, it will not be able to attain the profit objectives set for the Cars business in 1980. The bad start experienced in the first two months of the year in terms of market share, coupled with tougher economic conditions than originally assumed, is primarily responsible for this. We are, of course, taking vigorous action to remedy, to the fullest extent possible, the cash and other consequences. For example, we are running very aggressive marketing programmes to restore and maintain our UK market share in the run up to new Marina and Metro product launches and to reduce working capital. Furthermore, we have indicated to employee representatives that we intend to accelerate, to a significant degree, the restructuring and redundancy elements in the recovery programme announced in September 1979. This cannot be easy for them to accept, but they have not in fact balked at it.

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In addition to these actions, which are intended to produce a more efficient operating base for the company, we are examining very carefully the content and timing of our capital expenditure programmes. In this respect our objectives are twofold:

- (1) to protect the programmes which are fundamental to the future viability of the business, though this cannot preclude detailed changes to the content or timing of such programmes;
- (2) to ensure that, taken in conjunction with the other actions referred to above, we do not exceed the agreed cash call on Government during its 1980/81 financial year. We hope to confirm this after our March 26th Board.

We have not completed the review of capital expenditure at this stage but the Board does not expect the outcome to involve jeopardising the agreed longer-term objectives of the business.

On the basis of the information available to us at this time, we have made a revised assessment of the likely timing of the calls on the credit line facility of £150 million announced in your statement on 20th December 1979.

We anticipate that the Board will, in April or May, be requesting that some £75 million of equity be made available from the facility during June. At this stage it looks as though we will need the £75 million, not because of a cash shortage per se, but rather to avoid a forecast breach of two of the key ratios in the Medium Term Loan agreements.

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Your officials will be provided with details of the revised forecast which has led us to this conclusion. It does, by the way, assume minimal impact from the steel strike. It also assumes that we succeed in implementing the substance of our pay and working practices proposals for BL Cars. As you will know, our discussions with the trade union General Secretaries and JNC broke down yesterday. After 16 meetings and with 5 months of the new pay year already gone, we have reached the end of the road on negotiations and intend to put our proposals into effect unilaterally. This decision will not be announced until towards the end of this week.

The Board has considered very carefully its position in relation to my letter to you of 19th December 1979. Its conclusion is that, although, as described above, the trading circumstances will make it impossible to meet the Plan in full this year, the management of BL should press ahead with all possible vigour and determination both to launch the new products planned for 1980 and to implement the other changes required to secure a sound foundation for the business in the future - for so long as we can stay within the agreed funding limits. The Board is most emphatic in this view, particularly as the Mini Metro programme is on time and is going well. I am sure you will welcome the fact that the Board has been able to reach this conclusion and that, as seen at present, we expect that we will be able to keep within existing funding limits.

With respect to the question of contingency planning, we would like to formalise with Government the procedure to be followed in the event that it is necessary or desirable to request a guarantee to secure the company's borrowing facilities.

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We suggest, therefore, that a procedure and action statement be agreed between us - perhaps at official level - so that we are all clear about the necessary steps and timing that would need to be taken in the event that we need an umbrella under which to put contingency plans into effect.

I am copying this letter to Sir Arthur Knight.

Yours Sincerely,
Michael Lawrence.