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E(79) 20th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

—  
MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 19 DECEMBER 1979 at 4.00 pm  
—

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for  
the Home Department

The Rt Hon Lord Carrington  
Secretary of State for Foreign  
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Angus Maude MP  
Paymaster General  
(Item 2)

The Rt Hon Norman Fowler MP  
Minister of Transport  
(Items 1 and 2)

Mr Philip Goodhart MP  
Parliamentary Under-Secretary of State  
Northern Ireland Office  
(Item 1)

Sir Kenneth Berrill  
Central Policy Review Staff

SECRETARIAT

Mr P Le Cheminant  
Mr P Mountfield  
Mr A S D Whybrow - Item 1  
Mr D R Instone - Items 2 and 3

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1. ENTERPRISE ZONES  
Previous Reference: E(79) 13th Meeting, Item 3

The Committee considered a memorandum by the Chancellor of the Exchequer (E(79) 85), making detailed proposals on the measures to be applied in Enterprise Zones, the choice of sites and further action. The Committee also had before them a letter dated 17 December 1979 from the Secretary of State for the Environment to the Chancellor of the Exchequer about re-rating and planning and other controls, and a letter dated 18 December 1979 from the Chancellor of the Duchy of Lancaster to the Chancellor of the Exchequer about legislative aspects.

THE CHANCELLOR OF THE EXCHEQUER said that at their previous discussion (E(79) 13th Meeting, Item 3), the Committee had expressed strong support for the concept of Enterprise Zones, but had asked him to arrange for the members of the Ministerial Steering Group on Government Strategy (MISC 14), together with certain other Ministers, to consider the proposals in more detail. He had now done this. He proposed a package of six measures, described in paragraph 3 of his paper. In addition, local authorities and statutory bodies could do a lot to help the development of new businesses in Enterprise Zones by sympathetic administration of statutory regulations. On planning, there might be scope for the use of Special Development Orders to get the procedures speeded up. As to choice of sites, it would be necessary to consult the relevant local authorities before making a final decision. Paragraph 6 of his paper gave a list of six sites about which he proposed that consultations should be opened as soon as the Government had made a policy announcement, together with a reserve list of seven sites from which he recommended that he and the Secretary of State for the Environment should pick sites for consultation if and when any of the sites on the first list had to be dropped. The aim would be to end up with about half a dozen sites well spread across the country and across different types of site. As to legislation, it was desirable to legislate this session if possible. The provisions about capital allowances and exemption from Development Land Tax (DLT) could go into the 1980 Finance Bill. The obvious vehicle for the other provisions requiring legislation was the Local Government Planning and Land Bill, but in view of the Cabinet's decision on 13 December that this Bill should be shortened, the addition of clauses to it would need to be agreed by the Group under the Home Secretary which would be considering the Bill. Subject to that agreement, he proposed that he should announce the Government's proposals



and issue the policy document at Annex B to E(79) 85, and that he should then hand over responsibility for further action, including the consultations with the local authorities, to the Secretary of State for the Environment. If the Committee agreed to his proposals for financial incentives, it would be necessary for the Foreign and Commonwealth Secretary to consult the EEC Commission about them as soon as possible. Consultations could begin on an informal basis before the policy announcement was made.

The Committee then discussed each of the proposals in turn.

a. Capital allowances for buildings and exemption from DLT. The inclusion of these items in the package was agreed. It was suggested that the time limit should be increased to seven years. But restriction to three years might be better, at least for the DLT exemption, in order to discourage land hoarding.

b. De-rating. Industrial and commercial premises in Enterprise Zones should make some contribution to the costs of services such as street lighting and refuse collection. Complete de-rating might therefore be inappropriate, though a rate reduction of perhaps half or two-thirds might serve. It was agreed that this rate reduction should be applied to all industrial and commercial premises in Enterprise Zones, not just new or newly-occupied premises, and that it should be given for a period of seven years. The local authorities concerned should be compensated for their loss of rate income by 100 per cent specific grant within the total available nationally for Rate Support Grant.

c. Exemption from industrial development certificate controls, exemption from the industrial training levy, and exemption for employers from all but the bare minimum of Government statistical surveys. It was agreed that these three measures should be included in the package and should not be subject to a time limit. Exemption from the industrial training levy would require primary legislation.

d. Administration of statutory regulations. The reference in the draft policy document to sympathetic administration of these regulations in Enterprise Zones was unfortunate since it seemed to imply that the regulations were administered unsympathetically elsewhere. It should also be made clear that standards affecting public health and safety would not be disregarded in Enterprise Zones. In the case of planning controls, it would be desirable not merely to rely on local authority goodwill but to have a provision, possibly through the use of Special Development Orders, to ensure that planning decisions were given quickly. But this would not avoid the need for local authority co-operation, since a local authority which was determined to frustrate the operation of an Enterprise Zone could do so by delaying necessary approvals and other regulations.

e. Choice of sites. It would be necessary to consult the relevant local authorities before making a final choice of sites, and the consultations could not start until a policy announcement had been made. But too many of the sites on the first list in E(79) 85 had very poor prospects. At this stage, it would be better to choose sites which had more encouraging prospects of revival, while still meeting the criteria of physical or economic decay. If the Enterprise Zone concept succeeded on these more encouraging sites, it might later be successfully applied to the most difficult ones. On this basis some of the sites in the reserve list, for example Bilston and Preston Docks might be considered for promotion to the first list, which should also include Northern Ireland site and a site in the South West but not green field sites such as the Bolton, Tyneside site. In any case once an announcement had been made it was to be expected that a number of sites would be suggested by local authorities. The question of sites required further consideration.

f. Legislation. The Home Secretary's Group would give favourable consideration to the inclusion of the necessary clauses in the Local Government Planning and Land Bill, although this would conflict with their main task of making the Bill shorter.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the package of measures to be applied in Enterprise Zones should consist of: exemption from industrial development certificate controls, exemption from the industrial training levy, and exemption for employers from all but the bare minimum of Government statistical surveys all without limit of time; partial de-rating of all industrial and commercial premises in Enterprise Zones for a period of seven years; capital allowances of a least 75 per cent of both industrial and commercial buildings and exemption from Development Land Tax; and a measure to ensure the speedy processing of planning applications. On de-rating, the Chancellor of the Exchequer should agree the percentage to be applied with the Secretaries of State for the Environment, Scotland, Wales and Northern Ireland, subject to her approval, and the local authorities concerned should be compensated by 100 per cent specific grant within the total available nationally for Rate Support Grant. The Chancellor of the Exchequer should decide the rate at which the capital allowances would apply and the length of time for which capital allowances and DLT exemption would apply, and should agree the details of the measure relating to planning applications with the Secretary of State for the Environment. As to choice of sites the Committee invited the Chancellor of the Exchequer to arrange for officials to put forward further proposals in the light of their discussion, which he should discuss with the Secretaries of State for Industry, Employment and the Environment, together with the Secretaries of State for Scotland, Wales and Northern Ireland as appropriate. The Committee considered that the necessary legislation should be included in this session's programme if possible and had noted that the Group under the Home Secretary would try to give favourable consideration to the inclusion of the relevant clauses in the Local Government Planning and Land Bill. The draft policy document at Annex B to E(79) 85 would need to be revised in the light of the Committee's discussion and in particular the reference to sympathetic administration of certain statutory controls should be reconsidered. The Chancellor of the Exchequer should in due course circulate proposals to the Committee for clearance in correspondence on the provisions for planning procedures and the choice of sites, together with a revised version of the draft policy document and his proposals for announcing the Government's policy decisions. The Foreign and Commonwealth Secretary should arrange for informal consultations with the EEC Commission about the financial aspects of the proposals to be opened without delay.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary to proceed accordingly.



## 2. THREATENED STEEL STRIKE

The Committee had before them a minute dated 17 December from the Secretary of State for Industry to the Prime Minister about possible industrial action in the steel industry.

THE SECRETARY OF STATE FOR INDUSTRY said that his note recommended that the Government should take no further action in the dispute. The British Steel Corporation had made their own plans, within the limits of the finance which the Government was prepared to make available, both to reduce capacity in the industry and to reach a new pay settlement. The Government should take no direct part in these negotiations.

THE SECRETARY OF STATE FOR EMPLOYMENT said that negotiations were continuing, and that he was in touch informally with the parties concerned. A low pay settlement in the steel industry would help to reduce the pressure of wage demands in the economy generally.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee agreed that the British Steel Corporation should be left to negotiate with the unions, within the financial limits laid down by the Government, which should not be seen to intervene in any way.

The Committee -

Took note.

5. BRITISH LEYLAND

The Committee considered a paper by the Secretary of State for Industry E(79) 86. Their discussion and conclusions reached are recorded separately.

Cabinet Office

21 December 1979

I am sorry that I shall not be able to attend the Committee's discussion on enterprise zones on 18 December. While I do not wish to comment on the policy of what is proposed, I would like to comment on the proposal to include some of the necessary statutory provisions in the Local Government, Planning and Land Bill.

Paragraph 12 of your paper (E(79) 86) recognises the problem. I would like to stress that we are going to have serious difficulty in getting the Local Government Bill through the House. The Chief Whip and I will be collaborating to reduce the length of the Bill as far as possible. It is not just a question of the number of clauses. Since the Bill was first proposed it has acquired a number of controversial provisions. Legislation on enterprise zones would be a further one. I do not think the Bill would be able to bear the weight. The Home Secretary's group will have to look at this further, but the proposal I have if the Committee will not ensure that the necessary statutory provisions can be got through in the Local Government Bill this session.

I cannot pretend that there is any greater prospect for separate legislation this session. I can see no scope for any delay in the progress of the session. The only chance of legislation is essential this session, may be for the Environment Secretary and other colleagues to reduce the provisions for the Local Government Bill which enterprise zones and some of the other controversial provisions already in the Bill.

Despite these observations, I am pleased to have authority delegated to be instructed to draft the necessary legislation on enterprise zones if the policy is agreed by the Committee, thus giving this drafting authority. However, in the event of the provisions can only be introduced in the Local Government Bill if the Home Secretary's Group is satisfied that the difficulties I envisage can be overcome.



Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

18 December 1979

*De G. J. S.*

CABINET OFFICE  
7466

cc Sir K. Bevil  
Mr. H. Mervin  
Mr. Mounifield  
Mr. Miles  
Mr. Miles  
*Mr. Miles*

ENTERPRISE ZONES

I am sorry that I shall not be able to attend the E Committee's discussion on enterprise zones on 19 December. While I do not wish to comment on the policy of what is proposed, I would like to comment on the proposal to include some of the necessary statutory provisions in the Local Government, Planning and Land Bill.

Paragraph 10 of your paper (E(79) 85) recognises the problem. I would like to stress that we are going to have extreme difficulty in getting the Local Government Bill through the House. The Chief Whip and I will be urging our colleagues to reduce the length of the Bill substantially so as to make it more manageable and to give us some reasonable prospect of securing it this session. But it is not just a question of the number of clauses. Since the Bill was first proposed it has acquired a number of controversial provisions. Legislation on enterprise zones would be a further one. I do not think the Bill would be able to bear the weight. The Home Secretary's group will have to look at this further, but for the present I hope E Committee will not assume that the necessary statutory provisions can be got through in the Local Government Bill this session.

I cannot pretend that there is any greater prospect for separate legislation this session - I can see no spare capacity in the programme at the moment. The only answer if legislation is essential this session, may be for the Environment Secretary and other colleagues to balance the priorities for the Local Government Bill between enterprise zones and some of the other controversial provisions already in the Bill.

Despite these reservations, I am prepared to give authority for Counsel to be instructed to draft the necessary clauses on enterprise zones if the policy is agreed by the Committee. I am giving this drafting authority, however, on the understanding that the provisions can only be introduced in the Local Government Bill if the Home Secretary's Group is satisfied that the difficulties I envisage can be overcome.

Contd...

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I am copying this letter to the Prime Minister and to other members of E Committee, the Lord Chancellor, the Secretaries of State for Scotland, Wales and Northern Ireland, the Minister of Transport, the Chief Whip, and to First Parliamentary Counsel and Sir Robert Armstrong.

*John A. N...*

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





CABINET OFFICE  
A 7439  
10 DEC 1979  
TELETYPE INSTRUCTIONS  
REF NO. ....

" S.A. Bevil  
Mr. Keenan  
Mr. Mansfield  
Mr. Miles  
Mr. Whybrow

My ref:  
Your ref:  
17 December 1979

*Lee Ruffin*

When we discussed possible measures in Enterprise Zones at last week's meeting of MISC 14, I was asked to let you have some notes on rating, planning applications, building regulations and private rented housing. I hope the attached Annexes are self-explanatory, but there are two points I would like to mention.

Rating, the other fiscal concessions, and the planning relaxations, ought to be time-limited. At MISC 14, 3 years was suggested for the fiscal concessions. I think this would be too limited in time to give EZs a chance. A longer time span would be particularly important if the rating concession is to make a significant impact on developers' calculations of profitability. And investors and developers would need to feel that the gradual rise to prosperity of the EZ area is likely to be reasonably assured over a period of at least 10 years. We shall have to be able to create an expectation and confidence in the continuing development of each EZ. So I think we should not unduly limit the time span of any of the EZ concessions.

I have thought hard about rent deregulation in an EZ. My firm opinion is that we should not pursue this proposal. It would provide a major political stick that the Opposition could use against EZs and would be likely to prompt political retaliation against both shorthold and our scheme for new-build for rent - free from rent control.

I am copying this letter and the Annexes to members of E Committee and Sir Robert Armstrong.

437 244  
*Michael Heseltine*

MICHAEL HESELTINE

1/11/81

ENTERPRISE ZONES : RATING

It was agreed at MISC 14 that the de-rating of industrial and commercial properties should be part of the measures. Three issues remain:

(i) Scope for concession

Should it be restricted to new development, extensions, improvements? Or to new enterprises, firms? Restrictions of either kind would be extremely difficult to make water-tight in law and would almost certainly lead to litigation. Such restrictions might also be seen as unfair to business ratepayers already established in the area.

(ii) Duration of the concession

De-rating means that developers will be able to ask higher initial rents from occupiers, or if they are the occupiers themselves will enjoy a higher rate of return directly. But in either case they cannot calculate the rate of return on their investment unless they know the minimum number of years the rate concession will last. To give a reasonable encouragement, and to give an assurance that subsequent expansions and improvements may also benefit, it would be advisable to announce a fairly generous term of years, perhaps 10 years.

(iii) Where the cost falls

Very rough initial estimates suggest that enterprise zones might cost £2-£4m a year each in lost rates income. Authorities would be reluctant to co-operate fully unless there is full compensation to provide 100% reimbursement by specific grant. A specific grant would be a public sector transfer of revenues. It would not be found from FESC programmes, therefore, but could be taken into account in determining the final figure of aggregate Exchequer grant each year.

It is recommended that:

- (a) de-rating be conferred on all industrial and commercial properties in an EZ, without restriction to new development or new businesses;

(b) de-rating should be for 10 years;

(c) authorities should be reimbursed 100% by specific grant.

These provisions would require legislation. A Bill on these lines would be simple to draw up, but complex if the de-rating were to be confined to certain types of development or business.

103/Doc

14/12/79



Enterprise Zones: Administration of Permissions  
needed for Development.

Existing position.

1. Approval is invariably needed for the planning and building regulation aspects of development. Planning control plays an important part in controlling the location of polluting and hazardous industries and in some cases conditions may be imposed to reduce the impact (e.g. in relation to noise). Detailed pollution controls are exercised under separate powers, some of which require prior consent. Building regulations are used as a mechanism by which prescriptive requirements relating to fire, safety and health, as well as constructional standards, are enforced. Subsequent occupation and use of a building may be subject to certification - e.g. fire authority approval for certain uses; or may be governed by requirements under the Health and Safety at Work Act or Public Health Acts, relating, for example, to the installation of machinery or to particular processes - in many cases these are not subject to prior approval or certification. The attached note summarises the position. Planning permission can also be given by special development orders. These are fairly rare. They are subject to the negative resolution procedure.

Proposals.

1. Essential features.

(i) a local authority or new town or urban development corporation willing to make a success of the EZ and, where necessary, provide the infrastructure. Things would be easier if the authority or corporation owned all the land.

(ii) a basic plan to give the basic zoning in the EZ, the position of roads, sewers and other fundamentals. It would have attached to it a clear indication of other constraints governing siting, bad neighbours and similar basic points. All development that conformed to the plan and did not run into these constraints could be given permission by a development order made by the Secretary of State, to which the plan would be attached.

(iii) an officer designated by the authority with delegated authority to handle applications for planning and building regulation permission. On the other aspects, particularly those concerning safety, health and pollution, he would seek to ensure that the applications were dealt with by the relevant statutory bodies or officers sympathetically, and with the minimum delay. This officer's role would be an expression of the authority's commitment, not a statutory requirement.

## 2. Legislation.

Primary legislation would be needed to designate the EZ boundary (within which fiscal or other concessions would apply). There would be a choice between proceeding by special development order under existing legislation or legislating for a new form of development order (which need not be subject to Parliamentary procedure, if the legislation so provided) giving force to the basic plan described above. It is for consideration whether the legislation should provide a procedure prior to designation for the hearing of objections from owners, occupiers or users of land within the EZ or pollution control authorities whose interests might be harmed by development permitted by the order. Such a procedure would cause delay, but it would also help to ensure a degree of acceptability and permanence for the EZ which would be important to potential investors.

December, 1979.

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STATUTORY CONTROLS ON DEVELOPMENT

Applicable to all development proposals

- Planning control - Approval required from local planning authority (district council)
- Building regulations - Approval required from local authority (district council)

Applicable to some development proposals

- Air pollution control - Scheduled processes - subject to requirement that "best practicable means" are used to abate pollution - administered by Alkali Inspectorate.
- Other processes - subject to agreement of local authority (district council) to height of chimneys and installation of grit and dust arrestment equipment. Additional approval needed for "offensive trades" under Public Health Acts.
- Noise - <sup>prescriptive</sup> ~~Prescriptive~~ controls administered through the ~~planning system~~ <sup>no/control system other than planning</sup> except in noise abatement zones.
- Water pollution control - Services - RWA sets conditions on composition of discharges
- Rivers, etc - RWA grants discharge consent, including conditions on composition.
- Fire precautions - Prescriptive controls under building regulations.
- Certificate required from fire authority (County Council) after construction but before use for certain purposes (e.g. offices, hotels, factories above a certain size).
- Health and Safety at Work - Prescriptive controls on buildings under building regulations.



## CABINET

## MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
 E(79) 20TH MEETING, MINUTE 3  
 WEDNESDAY 19 DECEMBER 1979 at 4.00 pm

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## 3. FUTURE OF BRITISH LEYLAND

Previous reference E(79) 18th Meeting

The Committee considered a note by the Secretary of State for Industry (E(79) 86), reporting the outcome of discussions with the Chairman of the National Enterprise Board (NEB) and the Board of British Leyland (BL), about the BL 1980 Corporate Plan. The Committee also had before them a minute dated 14 December from the Secretary of State for Industry to the Prime Minister on the same subject; and a revised draft Parliamentary Statement circulated under cover of a letter dated 19 December from the Private Secretary to the Secretary of State for Industry to the Private Secretary to the Chancellor of the Exchequer.

THE PRIME MINISTER, summing up a discussion, said the Committee agreed that BL could be funded to the end of the financial year 1980/81 as they had requested. The timing and form of funding during the period should be agreed between the Secretary of State for Industry and the Chancellor of the Exchequer. In arriving at this decision the Committee had been considerably influenced by the statement of the BL Board dated 14 December (Annex A to E(79) 86) in which they outlined the circumstances in which they would recommend to the NEB and the Government that the plan should be abandoned. It would be important for the Board to provide a publishable version of this statement outlining their intentions in language which could be clearly understood. Subject to clearance by the Cabinet on the following day, the

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Secretary of State for Industry was authorised to make a statement about the Government's decision. This should be confined essentially to a recital of the facts: namely that the BL Board had asked for funds for one year; had described the conditions which would lead them to recommend the abandonment of the Plan; and that the Government had acceded to their request on the understanding it had of the Board's intentions. On this basis there would be no objection to BL signing their proposed collaboration deal with Honda. The Committee also noted the intention of the BL Board to carry out necessary contingency planning in consultation with the Secretary of State for Industry.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Agreed that funding for the British Leyland plan should be provided to the end of the financial year 1980/81, with detailed funding arrangements being subject to agreement between the Secretary of State for Industry and the Chancellor of the Exchequer.
3. Invited the Secretary of State for Industry to circulate a revised version of his proposed Parliamentary statement to Members of the Cabinet for consideration and approval.

Cabinet Office

21 December 1979

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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WEDNESDAY 19 DECEMBER 1979 at 4.00 pm

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BRITISH LEYLAND

Previous reference E(79) 18th Meeting

The Committee considered a note by the Secretary of State for Industry (E(79) 86), reporting the outcome of discussions with the Chairman of the National Enterprise Board (NEB) and the Board of British Leyland (BL), and seeking agreement for the future funding of BL. The Committee also had before them a minute dated 17 December from the Secretary of State for Industry to the Prime Minister.

THE SECRETARY OF STATE FOR INDUSTRY said, following the Committee's earlier discussion on 10 December about the future of BL, he had reviewed the main issues, in conjunction with the Secretary of State for Trade and the Chief Secretary, Treasury, with the Chairman of the NEB (Sir Arthur Knight) and the Board of BL. Sir Arthur Knight had said it would not be possible for the NEB to provide a responsible assessment in less than two months. The BL Board had indicated that the proposed level of funding was almost certainly the minimum level needed to implement the plan. The Board were, however, very conscious of the high risks involved, and they had prepared a further statement, which was attached to E(79) 86. This said that if the Board considered that shortfalls in performance placed the achievement of the plan in jeopardy, then the Board would have no hesitation in recommending to the NEB and the Government that the plan should be abandoned. Events

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which would be critical to such a conclusion were major disruption by strike action, significant shortfall on the company's cash flow objectives and failure to deliver the plan in any significant aspect. Further, the Board had not made any distinction in their statement between abandonment of the plan being caused by internal or external factors. In addition, the Board had volunteered, without prompting, that if funding for an extra year was provided now, it would arrange on a highly confidential basis to put in hand contingency planning against the possibility that the plan had to be withdrawn. Sir Michael Edwardes was not prepared to remain with BL on a full-time basis beyond the end of next year. This was in line with indications he had given earlier. But he would be prepared, if necessary, to remain with the Board for a further period of twelve months on a part-time non-executive basis. The situation was becoming urgent, and in his view a statement announcing the Government's support for the plan and for the provision of necessary funding should be made before the Parliamentary recess. The exact timing and method by which funds should be made available would be agreed separately with the Chancellor of the Exchequer.

In discussion the following points were made -

a. Although BL were formally only seeking a commitment from the Government on funding for one year there was a danger that they would interpret this as approval for the five-year plan as a whole. This could be important in relation to their proposed deal with Honda. On the other hand, BL had only asked for a commitment of funds for one year. Since it would be open to the Government to refuse further funding after that period, it made little difference in financial terms whether the Government gave explicit approval to the plan as a whole or not.

b. It was helpful that the BL Board had indicated that if funding were provided now, they would arrange on a highly confidential basis to put in hand contingency planning against the possibility that the plan had to be withdrawn. There was no reason to doubt the Board's



intentions but greater clarity was needed and it would be important that a late decision to abandon the plan and dismantle the Company was the genuine decision of BL rather than a forced act by Government. The Secretary of State for Industry in making his Parliamentary statement should spell out clearly the precise conditions which would cause BL to abandon the plan and emphasise that it was the BL Board itself which had proposed these conditions. The fact that abandonment of the plan would ensure whether the causes were internal or external to the Company should also be made clear.

c. If the Government decided to provide additional funds for a further year, then it was important that they should be seen publicly to support BL's efforts to implement the plan. Equally, however, the Parliamentary statement should not allow the implication to be drawn that there was a high chance of success: otherwise the Government could be accused of operating on a false prospectus if the plan had to be abandoned. This pointed to a rather shorter statement than the present draft.

d. The essential argument in favour of financing the BL plan for a further year, despite the poor prospects of success, was that the costs of an early collapse would be very high indeed, whereas short term funding would enable the necessary slimming down process to begin in an orderly way and could usefully enhance the value of some of the Company's assets if they had to be disposed of later.

e. There was a risk that if the proposed deal with Honda were signed, then Honda might be able to acquire rights over the Cowley plant which would pre-empt other possible sales arrangements for example the sale of the whole of BL to a single buyer. On the other hand given the likely shortage of potential buyers, this potential constraint was acceptable. And the deal with Honda was essential if the confidence of the dealer network, on which all else depended, was to be maintained.

THE PRIME MINISTER, summing up a discussion, said the Committee agreed that BL could be funded to the end of the financial year 1980/81 as they had requested. The timing and form of funding during the period should be agreed between the Secretary of State for Industry and the Chancellor of the Exchequer. In arriving at this decision the Committee had been considerably influenced by the statement of the BL Board dated 14 December (Annex A to E(79) 86) in which they outlined the circumstances in which they would recommend to the NEB and the Government that the plan should be abandoned. It would be important for the Board to provide a publishable version of this statement outlining their intentions in language which could be clearly understood. Subject to clearance by the Cabinet on the following day, the Secretary of State for Industry was authorised to make a statement about the Government's decision. This should be confined essentially to a recital of the facts: namely that the BL Board had asked for funds for one year; had described the conditions which would lead them to recommend the abandonment of the Plan; and that the Government had acceded to their request on the understanding it had of the Board's intentions. On this basis there would be no objection to BL signing their proposed collaboration deal with Honda. The Committee also noted the intention of the BL Board to carry out necessary contingency planning in consultation with the Secretary of State for Industry.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Agreed that funding for the British Leyland plan should be provided to the end of the financial year 1980/81, with detailed funding arrangements being subject to agreement between the Secretary of State for Industry and the Chancellor of the Exchequer.
3. Invited the Secretary of State for Industry to circulate a revised version of his proposed Parliamentary statement to Members of the Cabinet for consideration and approval.

Cabinet Office

31 December 1979