JU

cc A. Duguid

2

Prime Minister

These papers confirm how serious the BL situation is. But there are no decisions to take at this stage - until we have the 1981 corporate plan in the autumn. I don't think there is much point in having a Ministerial meeting until then.

25/7

SECRET

PRIME MINISTER

BL

1 This minute is to bring colleagues up to date on the situation on BL.

THE GRENSIDE REPORT

2 You will recall that, following discussions at your meeting on BL on 17 April, we decided to ask Mr John Grenside, senior partner in Peat, Marwick, Mitchell & Co, to advise the Government on whether any further precautionary planning or action could usefully, or should, be undertaken to ensure that, if it became necessary to run down the company, such action could be handled in a way which minimised the consequences for public expenditure and for the UK economy generally.

... 3 I have now received Mr Grenside's report, which I attach at Annex A to this minute. The conclusions are summarised at paragraphs 7.3 - 7.7. In essence, these are that immediate steps should be taken to deal with the risk of a breach of the liquidity ratios in BL's medium term loan agreement; that BL should be encouraged to produce a 1981 Corporate Plan which deals realistically with the future of the company, including such preparatory steps by way of corporate restructuring or otherwise as may be necessary, supplemented by contingency planning for foreseeable eventualities; and that the Government should be prepared to go on funding BL at least in the short term.

4 I have discussed this report with Sir Michael Edwardes, who has also consulted his non-executive Board members. They do not

/disagree ...

disagree with anything Mr Grenside has written, and they are urgently looking into the suggestion in paragraphs 6.5 and 6.6 of the report on corporate restructuring.

BL'S FINANCIAL POSITION

5 Sir Michael Edwardes has also reported to me on the company's deteriorating profit and cash forecast for 1980, and the impact this might have on the medium and longer term. I attach at Annexes B and C his letters of 10 and 15 July, which should be read in conjunction.

6 BL's profit forecast for the year has deteriorated further since the letters which he wrote to me on 18 and 28 March. The deterioration in the cash flow forecast is less marked, as BL have made vigorous efforts to reduce working capital requirements particularly by sharp reductions in stocks. Colleagues may recall from the copy of the brief which my office circulated for our dinner with Michael Edwardes on 21 May that BL were at that time forecasting a 1980 loss before interest and tax of about £100 million. The forecast out-flow of cash, at £309 million for the year, was £13 million better than in the 1980 Corporate Plan. BL's more recent monthly figures reveal a forecast loss before interest and tax of £188 million and a cash outflow of £409 million. This situation is without question serious. It reflects three distinct factors:

a) A much deeper recession in the vehicle market than had been generally expected, both here and abroad. Major vehicle manufacturers in nearly every country except Japan are turning in losses this year - not

/only ...

only in the US (where Ford as well as Chrysler are in considerable difficulties, and where even General Motors are expected to record a loss) but also in Europe.

b) Failure of BL to achieve its target market share in the UK. In the case of cars, BL share has been 17.9% in the first 6 months against the Corporate Plan target of 20.5%, with only the well publicised 13.2% in June. Although there were special factors which may partially explain the June figure (and July so far has been well up), this is very worrying: it confirms that in a reduced, and thus increasingly competitive market, BL's outdated model range fails to meet the competition. Much therefore depends on the success of the Ital (face-lifted Marina) just launched and, most crucially, the Metro due to be launched in October.

c) The strength of the pound and its effects on BL's ability to compete for volume and to realise profits both at home and abroad. In the medium term BL recognises that it must live with this new situation, and trim its operations and improve its performance accordingly: but the adjustments needed to recoup a substantial loss of competitiveness compared with the Corporate Plan's assumptions could hardly be achieved in a single year.

/7 ...

7 I have discussed with Michael Edwardes how he is responding to this situation. Although he has a long way to go, it would be wrong to minimise his achievements this year. This is most obvious in the field of industrial relations where there is no doubt that a new spirit, and a new management vigour, are at work. In addition to the 1979/80 pay deals, agreement has been reached with all the unions on the implementation (which has already taken place) of new work practices for which the company has struggled for years. The manpower reduction is well in excess of budget, and the forecast for December 1980 is now 147,000 compared with 161,800 forecast in the budget and 175,200 in August last year; the level so far this year is already down to 156,000. 1980 capital investment has been trimmed, and is now forecast to be £290 million compared with £330 million in the Corporate Plan. This is still roughly equivalent to total Government funding for the year.

8 However, in the light of the new situation, Michael Edwardes how two major steps in hand:

i The Corporate Plan on which the company is now working will not only cover the possibilities of restructuring as suggested by the Grenside report, but will also have to go further than anything considered appropriate so far, both in rationalising the product range and cutting back on manpower and facilities.

ii Even ahead of the Corporate Plan, the company has action in hand to cut its costs. A major reduction in staff for BL Cars has been decided on, and further lay offs and closures are in prospect without waiting for the Plan.

/Meanwhile ...

9 Meanwhile discussions are progressing on collaboration, including the German collaboration we have already discussed. The latter is somewhat less ambitious than originally envisaged, but would still make an important contribution to the company's recovery in various directions. The Honda collaboration is also proceeding well, and there is a possibility of it being extended.

10 As Treasury Ministers have agreed in recent correspondence, we are advancing to BL on 31 July a further £50 million from the £300 million facility we agreed last December. This will leave only £25 million in hand, but the timing of the drawing has been not to meet an immediate cash deficiency but in connection with the ratios problem on the medium term loan agreements. I have impressed clearly on Michael Edwardes the absolute need to contain drawings from the Government within the £300 million, and he is confident that this can be achieved certainly up to December, and he hopes until March, though with somewhat greater drawings on short term overdraft facilities from the banks than originally intended (adequate facilities have already been agreed with the banks to May 1981). There is, however, no doubt that when we come to take decisions on the 1981 Corporate Plan we shall have to decide on whether to concede a further increase in Government funding for BL beyond the current year or to look at more radical solutions.

11 This is a serious situation, but it is not wholly unexpected or without prospect of improvement. I am confident that the right course is to await the company's 1981 Corporate Plan due in the autumn, and to consider that together with the funding implications and the options for alternative courses of action on which the

/CPRS

CPRS have some work in hand.

12 Meanwhile, I am satisfied that Michael Edwardes has further remedial steps in hand which he is pursuing vigorously; and these will not have the effect of closing any options which we may want to consider later in the year.

13 I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Robin Ibbs, John Hoskyns and to Sir Robert Armstrong.

KJ

K J

23 July 1980

Department of Industry
Ashdown House
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