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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

I have read with interest the Secretary of State for Industry's note to you of 23 July and the report by John Grenside of Peat, Marwick, Mitchell and Co. which covers it.

2. The picture painted is disappointing, but not I think unexpected. It is clear enough now that the objectives set by Sir M. Edwardes in the 1980 Corporate Plan will not be met and that the company will incur higher losses than envisaged as well as an increase in its net cash outflow. On the other hand I am glad to note that Sir Michael is taking steps to adjust to the changed circumstances by expediting reductions in manpower and scaling down his investment programme.

3. The Grenside Report offers useful background and suggestions for the 1981 Corporate Plan. It is some comfort that Sir Michael Edwardes has accepted the report, and that his planning will cover the possibilities of restructuring as suggested by Grenside. It is also clear that developments over the past 12 months call for a realistic re-assessment of the prospects including further slimming down of the company so that it can offer a better prospect of long term viability. Whatever the course followed there are grave implications for public

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expenditure and we shall have to try to find means of minimising these demands. At the same time the wider implications for the BL supplier industries which would follow large scale BL closures need to be recognised. I understand that a second interdepartmental report by officials on these aspects has been prepared, following the first Report on the public expenditure consequences in the first twelve months, and we shall need to bear these reports in mind when we come to consider the 1981 Corporate Plan in the autumn. In the meantime, I am inclined to go along with Keith's view, that a discussion between us at this stage would be premature. We should wait I think and see how far Sir Michael is able to reflect the message of the Grenside report in his plan for the coming year.

4. I am copying this to the Secretaries of State for Industry and for Employment, Robin Ibbs, John Hoskyns and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

G.H.

31 July 1980

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