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PS/ *Secretary of State for Industry*

23 January 1981

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

p.c.

Dear Tim

I attach a revised version of the draft statement on BL which has been approved by my Secretary of State. This includes as many as possible of the suggested amendments put forward by the Prime Minister and by the Chancellor of the Duchy. As you know, my Secretary of State considers after careful reflection that it is necessary to retain at least some reference to collaboration.

Copies of this letter and the draft statement go to John Wiggins (Treasury) and Robin Birch (CDL).

Yours ever

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I K C ELLISON
Private Secretary

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DRAFT STATEMENT ON BL'S CORPORATE PLAN

With permission, Mr Speaker, I will make a statement on the BL 1981 Corporate Plan.

As the House knows, the Government has recently been considering BL's Corporate Plan which contains BL's strategy for returning the company's business to viability in the medium term. The Plan foresees a need for some £620m of additional Government equity in 1981/82, £370m in 1982/83, and £150m over the two following years, in order to assist the continuing programme of restructuring and investment in new projects, including the new LC10 medium car family. The Plan was submitted in four business sections. The policy of the BL Board has been (and will continue to be) to decentralise decision-making to the operating units. The intention of the Board as stated in the Plan is to draw these operating units into four distinct businesses to enable management to concentrate on well-defined product groupings. These businesses are BL Cars, Land Rover, Unipart and the Leyland Group. The formation of the Leyland Group, which embraces trucks, tractors and buses, was announced on 16 January; a revised plan to reflect the new organisation of this Group will be submitted shortly. As the structure evolves, so the progress of each business will be separately monitored.

I am making available in the Library of the House and in the Vote Office a Report by BL on its recent performance and details of the Corporate Plan.

/The ...

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The Government has approved the Plan because it supports BL's intention of creating strong and viable businesses and of involving private capital in them to an increasing extent, on a commercial basis.

The Board is exploring a variety of possible forms of collaboration, and has written to the Government in the following terms:

"The Board sees collaboration with other manufacturers as an important part of its strategy for recovery and for removing or reducing dependence on Government support. This might take the form of complementary collaborations on major components or particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind - in whatever form would prove to be most commercially beneficial - which might well grow out of more limited collaboration."

In order to support these aspects of its strategy as well as to enable internally-generated recovery to be carried forward the Government has approved BL's request to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620 million in 1981/82 and £370 million in 1982/83 - subject to regular monitoring by the BL Board of progress in substantially achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company. Funding approval is also of course subject to any revision which might follow submission of the revised Plan for the Leyland Group.



The Chairman's letter to me of 23 January, which I am publishing in full today in the Official Report and placing in the Vote Office, also makes it clear how the Board will respond to any appreciable reduction in the chances of achieving the Plan's major objectives, if at any stage this becomes apparent. He says that:

"In Section 1 of the Corporate Plan, the Board has stated that it will review the Plan and the funding arrangements, in consultation with the Government, if the Plan is clearly not being achieved and it appears impossible to bring about recovery within the timetable envisaged. The Board confirms that any substantial deviation in performance, or any departure from the assumptions underlying the Plan (whether relating to internal or external factors) which, in the opinion of the Board, appreciably reduced the chances of successful achievement of the Plan's major objectives - for example, a major strike which damaged, or appeared certain to damage, any substantial sector of the business - would very quickly cause the Board to initiate such a review of the Plan of the relevant business group, with consequent implications for continued Government funding of the business."

See my
covering
note.
TL

The Board and management have indicated that they will not hesitate to take whatever difficult and fundamental decisions about the future of the company are necessary if circumstances, inside or outside BL, require it.

/As ...



As I have already told the House, there will be an opportunity for a full debate in the context of the amendment to the NEB's financial limit in respect of BL in the Industry Bill which I shall table for consideration at Report Stage. Clearance from the European Commission will be needed for the Government's funding.

Finally, it is the Government's intention that the shareholding in BL should be transferred from the National Enterprise Board to the Secretary of State. This transfer will not, however, take place until the Industry Bill now before Parliament receives Royal Assent. Meanwhile the Government will discuss with BL matters arising from the change of ownership, in order to ensure continuity of BL's financial arrangements.

The Government wishes the BL Board and the company's employees well in their task.



Annex B

DRAFT PRIVATE LETTER FROM SIR MICHAEL EDWARDES ON COLLABORATION

The Board undertakes to seek Government approval for the disposal of any significant equity holding in any of BL's major subsidiaries.

If the Board at any time proposes to authorise collaborative arrangements for any of the four main business groups, which might preclude either a comprehensive collaboration agreement with another manufacturer for that group, or any other arrangement involving disposal, merger or substantial equity participation, the Board would clear the principles of any such arrangement [before [any firm commitment was made] The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable collaboration opportunities.

before making a position from it
might be difficult to withdraw.