

**CONFIDENTIAL**

MR. LANKESTER

*TL*

*267*

BL

*PM approved*

*revised draft*

*2871*

Following the Prime Minister's meeting on Friday evening, Robin Mountfield and I have discussed at length with Sir Michael Edwardes the changes she wished to incorporate in the draft Statement to be made on Monday 26 January. I attach a re-typed copy of the Statement and of the private letter on collaboration incorporating the changes the Prime Minister sought. *TL*

With considerable difficulty I have persuaded Sir Michael to accept all these changes except those in the extract (on page 3 of the Statement) from the letter he is to send about the circumstances in which his Board will review the Plan. On this he takes the view (and his Board concurs):

- a. That it is essential to leave an element of discretion with the Board about what constitutes a "substantial deviation in performance". This is indeed part of their essential responsibility as managers of the company; and
- b. That any such deviation must be judged to some extent in relation to how far it prejudices the achievement (current as well as eventual) of the Plan.

He has in mind, for example, that an adverse deviation in the market share might be offset by a favourable one in realised price. He has however agreed - with marked reluctance - to a formulation of this extract (which I attach) which uses all the words the Prime Minister sought, and none of those (e.g. about the Board's opinion) to which she objected; but does so in a changed order. It is true that this revised order does go some way to restore the link between a substantial deviation in performance and the achievement of the Plan. But it does this in the matter which is relatively objective and which emphasises the current achievement

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of the Plan not some ultimate and long delayed achievement. In any event (as Edwardes acknowledges) the Government retains the ability to conclude from its own monthly monitoring of BL that performance is going badly wrong and to insist on the Board's carrying out a review: but it would be as undesirable from the Government's as from BL's point of view to stress this publicly since it would detract from the Board's authority (for instance with the unions) and put the Government in the front-line.

I have shown these texts to the Secretary of State for Industry and explained the above points to him. He has asked me to say that he commends these wordings to the Prime Minister as securing the essential objectives, and as going as far as it is reasonable or judicious to press Edwardes. Edwardes has emphasised that he has found it very difficult to accept several of the points incorporated recently in the Statement and in the letters he is asked to send; and that if further changes were proposed he would need to see the Prime Minister himself to discuss the position.

I am sending copies of this minute and attachments to Sir Keith Joseph, Sir Robert Armstrong and Robin Ibbs.

*R. Armstrong*

✓ PETER CAREY

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 647-1570

24 January 1981

→ | Edwardes says  
 develops  
 his authority  
 call it criticism

REVISED FORM OF QUOTATION FROM BL'S LETTER ON PAGE 3  
(as acceptable to Sir Michael Edwardes)

"Circumstances may arise in which, through a substantial deviation in performance or an appreciable departure from the assumptions underlying it, the Corporate Plan is clearly not being achieved and it appears impossible to bring about recovery within the timescale envisaged. This could arise for external or internal reasons; an example would be a major strike which damaged or appeared certain to damage any substantial sector of the business. In such circumstances the Board would, in accordance with section 1 of the Plan, very quickly initiate a review (in consultation with the Government) of the Plan of the relevant business group, with consequent implications for continued Government funding."

↑  
cannot  
achieve

① — text still links "deviation in performance" to achievement of the Plan

②

within the  
cash

agreement

↳

↳ the company  
considers necessary  
as put out in letter

~~within the cash~~

~~Government funding~~

~~provision~~

(But this wasn't in)



## REVISED DRAFT STATEMENT ON BL'S CORPORATE PLAN

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

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 Plan contains BL's strategy for returning the company's businesses to viability in the medium term. It 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 de-centralise 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. As the structure evolves, so the progress of each business will be separately monitored.

Contd...



meanwhile  
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 reducing and eventually removing dependence on Government support. This might take the form of collaborations on components/<sup>or</sup> on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might grow out of such collaboration."

The Government supports BL's intention of creating viable businesses and of attracting private capital into them. It has approved the Plan and has agreed to fund the first two years of the Plan (including the first phase of the LC10 programme) - that is £620m in 1981/82 and £370m in 1982/83 - subject to regular monitoring by the BL Board of progress in achieving the Plan. The Government as shareholder will also be watching closely the financial performance of the company.

The Chairman's letter to me of 26 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 if the chances of achieving the Plan's major objectives are appreciably reduced.

/He



- 3 -

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 appreciable departure from the assumptions underlying the Plan, whether relating to internal or external factors, 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. This could arise for example if there were a major strike which damaged or appeared certain to damage any substantial sector of the business."

The Board and management have assured me 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 I have already told the House, there will be an opportunity for 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



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.



## 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 arrangements with the Government before reaching a position from which it might be difficult to withdraw. The Board emphasises that a rapid response from the Government would be necessary to avoid jeopardising desirable opportunities.