

CONFIDENTIAL *A*



✓ A. Walters
A. Digby
D. Wolfson.

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

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I have been thinking about the meeting arranged for Monday 13 July in the light of my letter of 9 June to Keith Joseph and his reply of 3 July.

2. The immediate need for the meeting is to consider the report by officials of their examination of the Corporate Plan for Leyland Group, but I note that Keith agrees that we should take stock of the affairs of BL as a whole. I welcome Keith's assurance that in respect of the Leyland Group all options will be considered. My worry is that with two major matters like this on the table the discussion may become too broad and generalised, with the risk that more specific issues to which we should direct our attention may be missed.

3. In my view the starting point for our discussion should be the latest revised forecast for BL as a whole. The focus here must be the upward revision in the estimates of accrued losses in the three year period 1981 to 1983. I understand that these losses are now forecast to amount to over £300m over this period, more than seven times higher than the comparable figure in the 1981 Corporate Plan. I am aware that Michael Edwards claims this deterioration arises from factors exogenous to BL itself - less buoyant overseas and domestic demand and so on - and that he is confident he will be able to find means of avoiding the losses becoming reflected in cash flow. Nevertheless, these revised forecasts hardly suggest that BL is moving towards viability: nor can we feel confidence, in spite of Michael



Edwardes' assurances, that when it comes to it Government funding agreed in the 1981 Corporate Plan will be sufficient to close the widening finance gap. The Plan after all has been running for only six months, and has fallen short of achievement in virtually every one of its major components.

4. Against this background, I suggest our next step should be to give urgent and specific considerations to finding ways and means of containing the Government's commitment. This may well require a drastic change to Michael Edwardes' concept of the company's future. The situation, as I see it, calls for a much more vigorous programme of disposal and closures than he seems prepared to contemplate.

5. The Leyland Group Plan is relevant here given the deteriorating performance of the Group. My impression is that Michael Edwardes' first priority is to look for collaboration deals rather than disposal possibilities, not only in respect of Leyland Group but over the whole range of the company's operations. But how far it will prove feasible to negotiate such deals, other than in the limited sense of arrangements like the Honda agreement on the Acclaim, must be open to doubt given the company's dismal prospects. BL simply does not look like the kind of company which more successful motor manufacturers are going to want to become closely associated in a financial sense.

6. The disposal problem falls into two. First, there is the long list of disposals agreed by Michael Edwardes in the 1981 Corporate Plan. Over 1981 to 1985 these amount to a probable cash value of £125m. Alvis has already been sold and I believe Coventry Climax is to be shut down. In my view we should consider pressing for accelerated progress on the other items in the list - it is not apparent to me why the process of disposal need stretch out over such a long period.

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7. Second, we should examine the case for disposals (or closures) on a wider and more dramatic scale. Landrover for example, which I note has done badly in 1981, must still be a saleable asset. On the other hand Jaguar, which might have been saleable at one time, now seems - despite being helped a little by the appreciation of the dollar - to have an uncertain future. I am not altogether persuaded by the optimism of its Chairman (reported in today's FT). We shall need to probe this closely: BL cannot afford a prestige model which is unlikely to be able to pay its way within a reasonable period of time. Then there is the Leyland Group itself; the possibility of disposal and closure of the various components which make up the Group lies at the heart of our consideration of the plan for the Group.

8. If all these various possibilities were pursued with determination and vigour BL would emerge as a more concentrated company orientated towards the production of a limited range of volume cars. Whether all this would make longer term sense is something we should need to give further study. It might however provide a set of sensible and logical objectives against which a 1982 Corporate Plan could be framed.

9. In short, in view of BL developments so far this year we should not sit by and wait for the 1982 Plan to emerge; although, no doubt this will offer renewed assurances that things will look better by the mid 1980's. There is too much public money at risk, and we cannot afford to add to our commitments. Fringe operations, not crucial to the business should be eliminated now, either by sale or closure, while in the case of Leyland Group our approach should be based on a realistic assessment of the prospects for early recovery. It may well be that the future for BL lies in a more concentrated product strategy than was contemplated when the 1981 Corporate Plan was framed.

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9. I am copying to Keith Joseph, Jim Prior, Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

9 July 1981