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SV

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

Prime Minister

To note.

PRIME MINISTER

ms

Ms 4/1

BL 1982 CORPORATE PLAN

I gave my agreement to the announcement which the Industry Secretary made on 22 December indicating the Government's acceptance of the 1982 Corporate Plan. But I did so with some hesitation. I would like to explain my misgivings.

2. The industrial relations scene in the two months since the Plan was proposed gives one little confidence that things will go smoothly and that production and cost targets will be met. Even if all goes well the Plan foresees a rather precarious viability for the Group in 1986; while if not, we shall again be faced - perhaps at a still more difficult time - with the choice between still more Government support and the massive costs and problems of closure. It is important not to lose sight, because of concentrating on the smaller loss figures, of the enormous amounts of cash which the company currently absorbs: more than £½ billion a year this year and next. What the Group's future demands will be must be very uncertain. I am not confident that they will diminish. By no means can the Government's investment in the Group be regarded as remotely economic. There must be particular doubts about the Leyland Group, to which I return below.

3. I was prepared to accept the Plan because it represented the second stage of a programme provisionally agreed last year, and because no extra money was being sought. But I am disturbed by the deterioration in the Group's prospects in the past year.

/I think that with the



I think that with the prospective departure of Sir Michael Edwardes and his proposals for restructuring the Group, we ought to begin some new strategic thinking about the future of BL before 1982 is far advanced. Patrick Jenkin has put to us certain recommendations about structure, to which we shall need to give careful thought - not least because of their implications for the prospects for privatisation of parts of the Group. Our discussion of that subject will need to be wide-ranging.

4. The most urgent questions arise, of course, on the Plan for the Leyland Group. I endorse strongly the reservations which Treasury officials expressed in the interdepartmental Group. The assumed increases in productivity and market share upon which this Plan is based are, if not impossible of achievement, very ambitious. It can hardly be claimed that the prospects for the Trucks Division offer anything like a commercial proposition. I suggest that we should not wait until the 1983 Corporate Plan to review the Leyland Group but should take a deeper look at it soon and not later than mid-year against the background of the monitoring information to date. We should then indicate to the Board the full range of options we would wish to see explored in the next Corporate Plan.

5. I note that all the figures in the Corporate Plan as presented are on a historic cost basis. This has the effect of understating the losses which are expected. On a current cost basis - even on the same assumptions - it might be 1986 before the BL Group broke even. Especially as they move towards viability, BL ought as a matter of course to adopt the more realistic convention. I suggest that we should ask them for next year to draw up Plans showing rates of return on a current cost basis.

/I am sending copies

CONFIDENTIAL



6. I am sending copies of this minute to the Secretaries of State for Industry, Scotland, Trade and Employment, to Mr Ibbs and to Sir Robert Armstrong.

Peter Jenkins

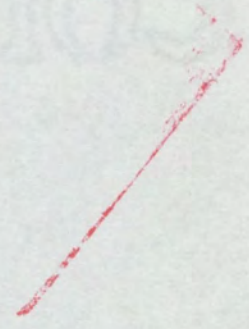
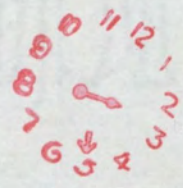
for (G.H.)

31 December 1981

*(Approved by the Chancellor of the Exchequer
and signed in his absence).*



- 4 JAN '82



JK
cc - A. Duguid

10 DOWNING STREET

From the Private Secretary

5 January 1982

BL 1982 CORPORATE PLAN

The Prime Minister has seen and noted the Chancellor's minute of 31 December about his misgivings as to BL's 1982 Corporate Plan.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Industry, Scotland, Trade and Employment, and to Mr. Ibbs and Sir Robert Armstrong.

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.