

JH 226



cc AD.

Prime Minister

①

cc AD
Aw.

PRIME MINISTER

*I'll accept the words
and leave the points
to S/S
mt.*

Do you agree these
amendments to the objectives?

Mes 26/1

BL: FUTURE STRUCTURE

Following our meeting last evening, I have had a meeting with Sir Michael Edwardes about the terms of reference and related draft objectives which are to be the basis of the consultants' study on BL's future structure. Sir Michael had with him Sir Austin Bide (Deputy Chairman) and the two executive members of the Board (Messrs Andrews and Horrocks) who would be Chief Executives of the two independent companies if his proposal were implemented.

2 Sir Michael and his colleagues put great emphasis on the fact that it was the Board's own objective, to which they were personally deeply committed, to return the business to the private sector as soon as possible, and that the Corporate Plan we have just approved had this as its objective. For myself, I accept that this is so. But they argue that to accelerate private ownership of certain parts, and hence separation of those parts from the core of businesses of volume cars and trucks, would be impossible without risking the collapse of those core businesses. They stake their commercial judgement on this assessment.

3 It follows that to insist on giving greater priority to



immediate privatisation would be seen by the Board as overturning their commercial judgement. They would take the view that this would risk the survival of the volume cars and trucks operations. In my view we certainly cannot discount the possibility of the resignation of Sir Michael, most or all of his non-executive directors and the key executives who on any analysis are needed if the volume cars and trucks operations are to continue.

4 Sir Michael and his colleagues put forward two changes to the draft objectives which they wished to see if they are to go along with the consultants' study (they are content with the terms of reference):

- a) in objective 1, reference should be made to the objective already stated in the 1982 Corporate Plan which we have just accepted. It should thus read:
"to implement the strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy".
- b) in objective 3, the reference to public funding should not exclude (any more than it should commit)



the total of £150m which was shown as new Government equity in 1983/84 and 1984/85 in both the last two Corporate Plans. The position on this is that Keith Joseph announced last January that the Government had taken no view on any further Government finance after 1982/83, though we hoped it would come from the private sector. I do not think it is sensible or timely to change that view at present. Sir Michael proposes that the relevant passage should read: "wholly within the limits of public funding already agreed for the financial years 1981/82 and 1982/83, and announced by the Government".

With these two changes, Sir Michael and his colleagues would be prepared to accept the enquiry, but only provided they were assured that, on the first, the wording reflected the spirit as well as the letter of the Government's priorities.

5 In practical terms, I think we have little alternative but to accept both the suggested amendments and the proviso.

Politically, I do not believe we can afford a closure of BL's volume cars or truck operations - unless, of course, they commit suicide by a major strike, in which event the Board have indicated that they themselves would recommend closure. Nor do I think we can afford a highly publicised mass resignation by the



BL Board on this issue. And in any case, opportunities for complete sale of significant parts of the business in the immediate future, on politically acceptable terms, are not in abundance. In practice therefore I think we have little to lose by accepting what Sir Michael proposes, and a lot to lose from rejecting it.

6 I therefore commend the draft objectives with the amendments shown in the attached version, with the terms of reference as circulated with your Private Secretary's letter of 25 January; on the basis that I can assure Sir Michael that these represent the spirit as well as the letter of the Government priorities.

7 I am sending a copy of this letter to the Chancellor of the Exchequer, the Secretaries of State for Trade and for Employment, Sir Robert Armstrong and Mr Robin Ibbs.

PJ

P J

26 January 1982

Department of Industry



DRAFT OBJECTIVES

The objectives for BL's business are:

- 1 To ~~plan and~~ implement the a strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.
- 2 Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.
- 3 To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed for the financial years 1981/2 and 1982/3 and announced by the Government, so that the business can be made to operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.

cc. MR. DUGUID RD

CF



10 DOWNING STREET

From the Private Secretary

27 January, 1982.

BL: Future Structure

The Prime Minister was grateful for your Secretary of State's minute of 26 January about the terms of reference and related draft objectives which are to be the basis of the consultants' study on BL's future structure.

In the context of the present consultants' study, the Prime Minister accepts both the suggested amendments to the draft objectives for use in this study, as set out in paragraph 4 of your Secretary of State's minute. As to Sir Michael Edwardes' proviso that the wording should reflect the spirit as well as the letter of the Government's priorities, the Prime Minister has commented that she will leave this to the Secretary of State.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), David Wright (Cabinet Office), and Gerry Spence (CPRS).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

288

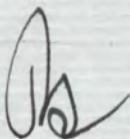
Prime Minister (2)

MUS 27/1

Ind Pol
27 January 1982
Policy Unit

PRIME MINISTER

1. The late arrival of Patrick Jenkin's latest proposals on BL's objectives last night precluded us offering you any comments. In any event, unless you wanted to bring matters to a head now, risking Board resignation, there did not seem much choice but to accept the changes that Patrick commended.
2. Nevertheless, we should be absolutely clear among ourselves that Edwardes is giving a clear warning that BL will require more Government funding in 1983/4 and 1984/5. The objectives that we have been able to agree with him still fudge the vital issue of the time-scale on which the "constituent businesses will be returned to the private sector". This is left completely open, and Edwardes' insistence on a reference to public funding for this year and next (leaving open the question of future funding) strongly implies that the BL Board confidently expects BL to have its hand in our pocket for many years to come.
3. It remains necessary, therefore, to straighten out the objectives in terms of timescale before we select a new Chairman - or Chairmen if the business is to be split. We must not repeat the experience with Edwardes, whereby he works to a set of objectives ("recovery") in which we have no faith.
4. I was glad to see that Michael Scholar's letter qualified your acceptance of these objectives by the phrase "in the context of the present consultant's study the Prime Minister accepts . . .". Patrick Jenkin will have to speak plainly with the new Chairman when the time comes to appoint him - or them. There is no reason why plain speaking should not include the Government's preference for avoiding large-scale closure during the next 2 years, if that is an overriding constraint. But even that raises the question "- at any price?"
5. One final point. Patrick mentions the possibility of closure through a suicidal strike. BL regularly threatens to commit suicide. To a very large extent, it is up to Government to decide when to let it do so. There has been - and there will be - no shortage of opportunities if we want to take them.



JOHN HOSKYNS



With the Compliments of

ROBIN IBBS

**CENTRAL POLICY REVIEW
STAFF**

Cabinet Office
Whitehall London
SW1A 2AS

Telephone or **233** 7765

SECRET

Qa 05224

To: PRIME MINISTER

From: J R IBBS

BL: Speaking Notes

1. Attached are speaking notes for your meeting with Sir Michael Edwardes on Tuesday.
2. The notes have been compiled on the assumption that the Government's objectives for BL will be:
 - (1) By early-1983, to have none of the BL Group of companies left in Government ownership;
 - (2) By mid-1982, to have disposed of as much as possible as going concerns (with injections of additional finance where necessary), and to be prepared then to plan for closure of any parts of the Group that seem unlikely to be sold in this way;
 - (3) By end-1981, to know which bits are likely to be saleable, to whom, and under what terms.
3. It is most important that Michael Edwardes should not gain the impression that the Government regards BL's prospects as hopeless, and that it is merely deferring closure as a matter of political convenience. This would give him grounds for a spectacular resignation.
4. Since this policy of systematic disposal seems more likely to succeed with Michael Edwardes than without him, the main purpose of the meeting will be to secure his co-operation. However, he should not be given the impression that he is indispensable.
5. He will expect, and I think he should receive, a frank description of the Government's new objectives for BL. I consider it most important, however, that he does not come to interpret the new policy as one of deferred closure. We doubt whether he would willingly co-operate in such a policy.