

N.F.A.

(F)

Prime Minister

BL

1. Herewith letter dated 27th April from Norman Lamont.
2. Would you like to have a meeting with Patrick, and Norman Lamont, in order to discuss this?

28.4.83

IAN GOW

From: NORMAN LAMONT, M.P.



HOUSE OF COMMONS
LONDON, SW1A 0AA

STRICTLY CONFIDENTIAL

27 April 1983

Dear Sam

We spoke the other day about BL and the Varley-Marshall assurances and I promised to let you have a note about it.

The BL Board have agreed that there should be an end to Government support and that they will not seek more money beyond what has already been agreed with the Government (the remainder of the £990 million plus possibly another £100 million). This sounds all very well and laudable, except that the Government will continue to stand behind BL and in effect to guarantee both its trade debts and its bank borrowings.

These arrangements were first announced by Eric Varley and then confirmed by Michael Marshall when he was in the DOI. The assurances are probably something less than a full legal guarantee, but they commit the Government to stand behind BL's debts as a first class company would do with regard to its subsidiaries. The assurances are probably not actionable in law but they do constitute a strong moral commitment.

There is, of course, no great distinction between the Government putting in equity in BL and the company being allowed to borrow on the back of a Government guarantee. Under the latter arrangements the Government's involvement with BL continues, it has a considerable and growing liability and if things go wrong will then find itself footing a very large bill. The Varley-Marshall assurances are likely to cover debts of about £2,150 million by 1987.

My view has been that an end to Government support and "real privatisation" must mean a limitation and eventual removal of these assurances. The company are now considering the matter and an Official Treasury/DOI Working Group is also examining it. There is, however, considerable Official scepticism as to whether anything can be done about this situation and I am not optimistic about what they will produce.

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As I told you, I had the impression at the end of our last meeting on BL that the PM thought that these assurances were now being ended. That is very far from being the case.

As regards BL generally, the events of the last few weeks have certainly confirmed one's views about the precariousness of any "recovery" by BL. It must be very questionable whether Austin Rover can ever generate enough cash for new models. The only real answer is a full scale collaboration with another manufacturer. This is happening to some extent with Honda, but in my view not over a broad enough area. More pressure on the Varley-Marshall assurances would, however, concentrate minds considerably.

All this is being somewhat overtaken by greater events, but I thought I would still write as promised.

Yours
Ian

Ian Gow, Esq., MP

Thursday 31 March 1981

Mr. Kenneth Carlisle asked the Secretary of State for Industry if he is in a position to make a statement about the discussions which have been held with British Leyland in order to ensure the continuity of the company's financial arrangements after its transfer from the National Enterprise Board.

Sir Keith Joseph: In a statement on 26 May 1977—[Vol. 932, c. 597-8.]—the then Secretary of State for Industry referred to the National Enterprise Board guidelines which required the NEB, in deciding on its practice in relation to the debts of its subsidiaries, to have regard to the practice of companies in the private sector in relation to the debts of their subsidiaries. He said that the NEB, with his approval, had informed British Leyland with regard to this provision that in its judgment a company in the private sector whose relationship with British Leyland was the same as that of the NEB, by virtue both of the size of its shareholding and closeness of its involvement in the affairs of British Leyland, could not allow British Leyland to be left in a position where it would not be able to meet its obligations. The position was confirmed by the present Administration by my hon. Friend the Under-Secretary of State on 29 November 1979—[Vol. 974, c. 379.]. I have informed BL Limited that, when the shareholding is transferred to me on 31 March 1981 under the provisions of the Industry Act 1980, the Government will honour the intention behind those statements and will ensure that the obligations of the group are met.

elsewhere in the public sector the funds would have been taken back to the Treasury, and could not have been carried forward. There was every reason to believe that BL had again over-estimated the amount of cash they would need to finance the projected activity set out in the Corporate Plan. The assumptions underlying the Plan, which were settled around the middle of 1982, had in important respects proved to be pessimistic: in particular their forecast of the United Kingdom car market this year and the recent exchange rate developments, favourable for BL and unfavourable for their competitors. Against this background it would be wrong to tell BL that they could draw a further £100 million or £150 million as an entitlement. This would merely encourage them in the expectation that they would be able to fund further losses, and to finance further Corporate Plans in which the date of a return to profitability was steadily pushed back into the future. Against this, it was argued that cash control at BL had been tight, so that approved expenditures had been pushed into forward years. The fact was that these sums, including the equity funding of up to £150 million, had been promised to the Board, and there would be considerable public embarrassment if the Government went back on its word. Although the general environment in which BL traded had undoubtedly improved, they faced considerably intensified competition in the United States market, and it was simply not possible to say now that the equity funding would not be needed. The right course would be to approve the 1983 Plan, together with the additional equity funding, but to make it plain that the improvement in trading conditions would be taken into account, along with other factors, in assessing whether the additional equity funding could be drawn down. It should not be forgotten that BL had traded in very difficult circumstances in recent years, and that the Company had achieved a remarkable turn-around in its performance - notwithstanding the very considerable difficulties that still lay ahead.

Summing up the discussion, the Prime Minister said that it was agreed that the 1983 Corporate Plan should be approved, and that BL could be told that such part of the £150 million equity funding envisaged in previous Plans for the period after March 1983 as was not offset by estimated proceeds from the sale of minority interests, would be available to BL, if they could demonstrate, in their changed trading circumstances, that it was needed. A full review of the options open to the Austin Rover group should be undertaken, on the lines set out in Mr. Sparrow's minute. The letter communicating this decision to Sir Austin Bide would need to be drafted with great care, and should be cleared with the Chancellor of the Exchequer. It should be made clear to BL that the Government would look very closely at the 1984 Corporate Plan, in particular to see whether the date for a return to profitability was further set back. The burden of proof, as to the need for the further equity funding, should be placed firmly with BL: the aim was to keep them on a tight rein. Finally, it was not satisfactory that the Company should be able to increase its borrowings against the Varley-Marshall assurances indefinitely and without limit. Ideally, there would be no further increase in exposure; at the very least, a study should be

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produced as soon as possible to consider how the Government's exposure under the Varley-Marshall assurances could be limited or reduced.

I am sending copies of this letter to the Private Secretaries to those present at the meeting, and to Muir Russell (Scottish Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

Lamont

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STRICTLY CONFIDENTIAL

28th April 1983

Many thanks for your letter of 27th April, which I have shown to the Prime Minister.

I am grateful to you for having explained the position so clearly.

IAN GOW

Norman Lamont Esq