

V.C. JV
2 P's Incl P.1

CONFIDENTIAL

Qa 06217

To: PRIME MINISTER

14 January 1983

From: JOHN SPARROW

BL's 1983 Corporate Plan

1. The Secretary of State for Industry has written to you and other colleagues seeking agreement for approval of BL's 1983 Corporate Plan and the associated funding requirement.
2. The CPRS participated in the Officials' Group which reviewed the Plan and generally concurs with the conclusions that recommend its acceptance.
3. The operating plan proposed by BL is satisfactory. Their new model programme is on schedule and they are proposing further improvements in productivity which, on their recent past record, they should achieve - and which should bring them up to European standards. The major vulnerabilities are in the market. Achievement of the volume cars plan depends on successful launch and consumer acceptance of the LM10/11 and achievement of the Leyland Trucks Plan depends on recovery of market share when renewal of their truck range is completed.
4. The principal problem exposed is that for the first time the BL Board are admitting that the volume cars business, Austin Rover Group Holdings (ARGH), is unlikely to be viable by itself in the longer term. The business will simply not be generating enough cash in the mid-eighties to finance the development of the new models required for the end of the decade. And privatisation of the profitable, cash generating, subsidiaries such as Unipart and Jaguar will more clearly expose this problem. It follows that privatisation is not the key issue brought out in the BL Plan. BL have produced a privatisation strategy, but further work needs to be done, and I see little mileage in pressing BL further in the short term. If you do decide to press the point, the earliest date of any significant sale would be well into 1984.

CONFIDENTIAL

5. For ARGH, the Department of Industry see good prospects of further collaboration with Honda, but I think it has to be recognised that this may be on Honda's terms. There is a need for a full review of the options open to ARGH. BL are proposing such a review and I feel that Ministers should insist that this is completed as soon as possible, with input from the Department of Industry if necessary. It should examine a full range of options from closure of ARGH to continuation of the status quo (i.e. assuming collaborative deals prove impossible). It seems best that such a review of options be completed in sufficient time for Ministers to review it and give guidance to the BL Board for preparation of their 1984 Corporate Plan.

6. Whilst the Plan does not show it, one has to suspect that if the Leyland Trucks business fails to meet its Plan - and there is considerable risk that it will not - a similar, but smaller, unviable rump will be exposed. However, a solution to this problem is less urgent than the question of determining a future for volume cars.

7. I am sending a copy of this minute to Sir Robert Armstrong.

PS.