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cc J.V.



Prime Minister

BRITISH LEYLAND

I comment below on the Secretary of State for Industry's minute to you of 11 January.

1. Provision of Funds by Government

BL are asking for £250 m for 1983-84.

Of this £150 m may be described as "legitimate" in the sense that it is the unspent balance of the £990 m agreed in 1981.

But the extra £100 m is the familiar story of B.L. winkling a bit extra out of the Government by the constant drip method. They start by "envisaging" it without actually asking for it. Then last year they asked for it and we told them to find it themselves by selling off part of the business. They say that they can't do that just now : but they will take £100 m instead of £150 m and they will make it good out of the proceeds of privatisation on an "as, when and if" basis. They then generously offer not to ask for any more money after 31 March 1984 but provide themselves with an escape hatch by saying they would like the remaining £50 m as well if the proceeds of privatisation fall short of the full £150 m. I do not think we should fall for this. There is a suggestion that this additional money may not be required in 1983, in which event it would be "rolled over". In other words B.L. are trying to "bank" this £150 m. We never agreed to give it to them in the first place : and when they persisted we said it had to come out of the proceeds of privatisation. They now just want it without strings.

Contested
by Patrick
Jenkin
and the
Treasury
MLs

2. 1982 Results and the Outlook for the future

The position once again is one of hope deferred. True the loss in 1982 before interest is little more than half what it was in 1981; and it is marginally less than estimated a year ago although that in part is an illusion because of the large contingency items included in the total forecast figures.



The more serious point however, is that total profits over the next four years (1983 to 1986) are now projected at £125 m less than estimated a year ago. Much of this deterioration is due to Unipart which is no longer expected to produce the dramatic improvement anticipated a year ago. There also appears to be a substantial deficit - as opposed to a profit - on "Central Services" which is not explained.

The Individual Sectors

Three groups - all unfortunately small - seem to offer real hope. They are Jaguar, Unipart and Land Rover. Leyland, which has been in deep trouble, is forecast to show an enormous and dramatic improvement. Indeed by 1985, Leyland is forecast to produce profits of £128 m before interest, half of the total group profit. My reaction is to say that I will believe it when I see it. The Austin Rover group (now excluding Jaguar) is not estimated to come into profit - even before charging interest - until 1985 and even then the profits are very small. It is the Austin Rover group with its immense negative cash flow which is primarily responsible for BL's financial troubles and will continue to be so.

3. Privatisation

There is no hope of privatising the residual Austin Rover group, not in the foreseeable future at any rate. The best that could be hoped for is some collaborative arrangement. But we ought to push ahead as fast as possible with privatising Jaguar, Unipart and Land Rover. I don't think that at this stage we could set a precise date - events will largely determine that : but it should undoubtedly be in 1984 or 1985. This means a vigorous and continuing management effort to ensure that everything is tee'd up ready to go the moment the opportunity presents itself. Leyland will answer itself. If it comes round we should privatise it. Otherwise it will go under. There is incidentally a real question mark overhanging Unipart. If the Austin Rover group fails, the viability of Unipart must be open to question.

It is a little short of a tragedy of course that the money realised from privatising the viable parts of the business is likely to be absorbed by the insatiable maw of the residual Austin Rover group : rather than enuring to the benefit of the taxpayer.

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4. I am copying this to the recipients of Patrick Jenkin's minute.

A.C.

LORD COCKFIELD

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19 January 1983

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LABORATORY