



Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

BL: 1983 CORPORATE PLAN

Patrick Jenkins' minute of 11 January invites us to approve BL's 1983 Corporate Plan and the associated funding requirement. Norman Tebbit, Arthur Cockfield and George Younger have already commented and Patrick Jenkin has responded to Arthur Cockfield's comments. While I accept Patrick's account of the history of the request for £100 million, I do sympathise with the general points about BL's past performance which Arthur makes.

2. I myself wish to comment on 3 main issues: prospects, funding and privatisation.

#### Prospects

I agree broadly with the assessment of the Plan made by the Official Group. The 3 smallest groups - Unipart, Land Rover and Jaguar - are profitable and have reasonable privatisation prospects. The major problems lie with Leyland Trucks and Austin Rover. I remain doubtful about Leyland Trucks' recovery prospects. Nevertheless, I think that having decided last year to support the recovery plan, we should stick with it. The group's testing time will come over the next 18 months as its new models are launched. We must wait to see how these are received.

3. As Arthur Cockfield says, Austin Rover's prospects are dismal. BL themselves have candidly admitted that the projected results do not hold out a prospect of viability. The best they are offering is that after the current funding request, Austin Rover will not need





further cash from the Government. However, the Government's exposure will continue to increase because of the implicit guarantee attached to Austin Rover's borrowing.

4. We cannot support Austin Rover in this way indefinitely and I have seriously considered whether the right course is to face up to immediate closure. However, I have concluded that this would not be the right time. The LM 10 will be launched in March and the LM 11 next year. The money to develop them has already been spent. It makes sense to see how the new models perform in the market before we reach a firm view about the group's prospects. I note that BL intend to review ARG in advance of the 1984 Corporate Plan and in the light of this review we shall have to be ready to take a fresh look at the group.

5. This leads me to conclude that we should endorse the physical plans that BL have embodied in their Corporate Plan.

#### Funding

6. BL's estimate of their cash needs reflects a wide number of economic assumptions about the next 5 years. The Plan assumes a total cash outflow in 1983 and 1984 of £532 million. BL requests that the Government should make £250 million available in 1983-84 towards this outflow. First, from the £990 million which we agreed in January 1981 to provide in respect of the 1981-82 and 1982-83 financial year, there is £150 million which BL do not expect to spend in the current year and wish to carry over. Second, there is a new requirement for £100 million. The residual amounts not covered by the Government would be borrowed on the market but with an implicit Government guarantee.

7. In considering the funding request, we have to look at the reasonableness of the company's cash-flow forecast. I believe that BL have over-estimated the amount of cash they will need to finance the physical plans set out in the Corporate Plan because I doubt the





underlying economic assumptions they have made. These were settled around the middle of last year and at that time seemed fairly realistic but the economic environment in which BL are likely to be operating over the next few years has radically changed since then.

8. I have 3 specific developments in mind. BL's assumptions about average earnings growth for manufacturing industry now look excessive, while their forecast of the UK car market this year now seems pessimistic. Thirdly, recent exchange rate developments make BL's earlier assumptions a highly suspect basis for a cash-flow forecast. Sensitivity analysis of the impact of an effective rate 10 per cent lower than that assumed in the forecast showed an improvement in BL's profit before interest and tax of £220 million in 1983 and 1984. The rate has already fallen this far.

9. These changes are so substantial that they must throw doubt on the cash forecast in the Corporate Plan. I accept that we are already committed to providing the £150 million which has slipped over into 1983-84 from the £990 million we originally agreed. But I believe that the physical plans set out in the Corporate Plan can be achieved without an extra £100 million and I do not think we should make it available.

#### Privatisation

10. I endorse Patrick Jenkin's view that BL have, as required, presented a strategy which offers visible progress towards privatisation in the next two years. I have a few comments on the individual proposals.

11. On Unipart, my instinct is to prefer a merger between the company and Quinton Hazell. I suspect it would be difficult to sell Unipart to any other interest. It would be important to secure a private





sector majority holding in the merged company as soon as possible, while BL might perhaps be pressed to accelerate the negotiation of the arm's length contracts to secure earlier Unipart privatisation.

12. I share Patrick's view that the proposed Leyland/Land Rover linkage could be detrimental to Land Rover privatisation and agree that BL should be told to desist from any arrangement other than setting up a simple holding company.

13. Jaguar seem to be the best privatisation prospect. I accept that in the interest of securing a fair price for the company, we should plan on the basis of privatisation in 1984 or 1985. But I suggest that even in advance of that, we should urge BL management, in conjunction with their merchant bank advisers, to take early soundings about possible purchasers amongst British manufacturers, especially those in the engineering industry. I should very much prefer to keep Jaguar's ownership in UK hands, although I do not rule out foreign ownership of a minority stake.

14. Finally, I note Patrick's suggestion that a study should be put in hand to explore ways of reducing HMG's existing exposure from the Varley-Marshall assurances. It would be a very satisfactory achievement but, apart from privatisation, I cannot see how it could be done. Perhaps Patrick could expand a little on what he has in mind?

15. I am copying this minute to Patrick Jenkin, George Younger, Norman Tebbit and Arthur Cockfield and to Sir Robert Armstrong and John Sparrow.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

31 January 1983

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BL, Pt 7



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