

JH 778



PRIME MINISTER

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Prime Minister (2)

You have these papers

I think.

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BL's 1983 CORPORATE PLAN

I have seen Geoffrey Howe's minute to you of 31 January commenting on my recommendation that we should approve BL's 1983 Corporate Plan and the associated funding requirement.

2 To do as Geoffrey suggests would in my view be a major breach of faith on the part of the Government. After prolonged discussion last year we reached agreement with the BL Board on privatisation and the further funding of the business. This agreement was set out in Sir Michael Edwardes' letter to me of 4 August 1982. Nothing has happened since then which would make it impossible for us to deliver our part of the bargain. I doubt whether Sir Austin Bide and the rest of the Board would have agreed to serve if they had known that the ground rules were to be changed five months later.

3 There is no question of any commitment to giving BL the money unnecessarily. BL always have to obtain my approval and that of the Treasury before drawing any tranche of equity funding, and have to demonstrate their need for the money. If their cash outflow were not as high as expected in 1983 and 1984, they would



simply not qualify for as much as an extra £100m in equity.

4 If we are to follow the logic of Geoffrey's argument about the exchange rate, we should compensate BL for the fact that sterling was higher than they had planned in 1981. Examination of BL's 1982 Corporate Plan showed that the impact of this was to increase BL's losses in 1981 by about £95 million. Other economic factors too, such as the collapse in the market for trucks, went against them. However, BL very properly neither asked for nor received any compensation.

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5 There is no doubt that if recent currency changes represented a permanent change in the real exchange rate, BL's competitiveness in the longer-term would be significantly improved; and the prospects for viability and privatisation of the Austin Rover Group would be much better than BL envisaged in their Plan or than Arthur Cockfield predicted in his minute. But the permanence of the change, and its effect on real competitiveness in the longer term, cannot yet be predicted with any reasonable confidence; neither can the actual cash effects in the shorter term given the particular mix of parity changes.

The figure of £220m over 2 years, which the Chancellor cites, is a crude rule of thumb figure taking no account for example of consequential changes in expectations for domestic growth and inflation.



6 The last point I would make on this is that the clearing banks have made very substantial loans to BL in the past two years in the expectation that the Government would provide its share of the funding required by BL. Their willingness to provide further loans would be greatly affected if there were to be a public disagreement with BL over this Corporate Plan which led them to doubt the Government's willingness to bear their share of BL's future funding needs.

7 If colleagues agree with this view, I propose in conveying our approval of the Plan to say (in addition to the points in my minute of 11 January) that I wish before any announcement to discuss with the Chairman the basis on which the Government's funding will be available, bearing in mind that BL would regard an outright decision to deny them the final £100m as effectively turning down the Corporate Plan as a whole. They might well then argue that they lacked the necessary financial backing to carry out the physical programmes outlined in the Plan, such as the new executive car with Honda. I would, therefore, propose that the balance of the £990m, and up to a maximum of £100m extra, would be available to be drawn on evidence of need by no later than the end of 1984, after which no further funds would be available; that in the light of recent currency changes we as yet remain to be satisfied that the £100m will in the event be needed to finance the Plan as approved; and that the company's funding requirements will be kept under close review.



8 I note Geoffrey's comments on the difficulty of finding ways of reducing HMG's liabilities other than through privatisation. Frankly, privatisation is not possible at present on Austin Rover's existing balance sheet, and will become even more difficult if the balance sheet deteriorates further. But the Government guarantees cannot be withdrawn suddenly. I agree that there are very serious practical difficulties in reducing our exposure from the Varley-Marshall assurances but I cannot see any reason for not making an attempt. I suggest my officials should get together with Treasury officials (and perhaps the CPRS), to discuss how this work might be tackled.

9 I am copying this to the recipients of the Chancellor's minute.

*Varley*

*(seen and approved by) P J*

*3* February 1983

Department of Industry

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