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PRIME MINISTER

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British Leyland 1984 Corporate Plan: Leyland Trucks

(E(A)(84) 19)

BACKGROUND

The 1984 British Leyland (BL) Corporate Plan shows that Leyland Trucks is in trouble. Despite a forecast increase in sales volume from 10,900 in 1983 to 17,600 in 1988, and a decline in manpower from 9,400 at the end of 1983 to 4,900 at the end of 1988, cash flow is negative over the whole period, and losses, even before interest and taxation, are forecast for every year except 1988. Over the period 1984-88 total forecast negative cash flow is £292 million ( though some £170 million of this is interest on debts already occurred and therefore unavoidable ); and total losses before interest and taxation are £126 million.

2. The Board of BL do not wish to close Leyland Trucks. They believe that it would be more expensive, by some £34 million, than continued operation. The Secretary of State for Trade and Industry, in his memorandum E(A)(84)19, supports the Board's view; so does the interdepartmental group of officials whose report is annexed to the memorandum. The Secretary of State argues that, apart from the additional cost to BL, there would be extensive redundancies among suppliers ( with an estimated cost to the public sector borrowing requirement of £200 million ) and that much of Leyland's existing market share would fall to overseas producers. However, he suggests that officials should be instructed to monitor the progress of the business, to ensure that opportunities for reducing costs are not missed, and to explore the prospects for merger with another UK manufacturer or (as an outside possibility) disposal to a foreign vehicle manufacturer.



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3. The BL Board's own plan suggests closure of the Leyland Trucks plant at Bathgate in Scotland, withdraw from engine manufacture, and transfer of axle manufacture to Albion in Glasgow. Mr Tebbit proposes that the closure of Bathgate should be announced in early April.

4. E(A)(84)19 and the associated report by officials also discuss Leyland Bus. Mr Tebbit proposes that action should be taken to allow Leyland Bus to be sold at an early date, and in particular that it should be set up as a separately saleable entity.

#### MAIN ISSUES

5. The main issues before the Sub-Committee are as follows.

(i) Should the Government seek to insist on the closure of Leyland Trucks?

(ii) If not, are there any modifications which it should require to the BL Board's plans for Leyland Trucks?

(iii) Should the closure of Bathgate be accepted; if so, should the announcement be made at the beginning of April?

(iv) Are the proposals in E(A)(84)19 regarding Leyland Bus acceptable?

#### The closure option

6. The main arguments for and against closure of Leyland Trucks are set out in the papers. The Sub-Committee will also wish to consider the following.

(a) Even in 1988 Leyland Trucks is forecast to be making only exiguous profits before, and therefore heavy losses after, interest and taxation. Forecasts at such long range tend to be optimistic. There is therefore



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little prospect that Leyland Trucks will be a viable company for the foreseeable future. Closure may be forced on BL if results deteriorate; closure after two or three years' losses would be the most expensive course.

(b) It is argued that slimming down Leyland Trucks as proposed by the BL Board, should make it more saleable in two or three years' time than it is now. Against that, two or three years' heavy losses, with no immediate prospects of viability, could work the other way.

(c) The Board of BL is opposed to closure. To overrule their views could raise both legal and political problems.

(d) Closure would require additional funding. The EC Commission have been making difficulties over the possibility of granting additional equity to BL and have said that they would need to consult other member states under Article 93(2) of the Treaty of Rome. If the money were needed we could well face difficult negotiations with the Commission, though it seems unlikely that we shall ultimately be faced with an outright refusal.

#### Modification to BL plans

7. If the Sub-Committee agree that no attempt should be made to require BL to close Leyland Trucks, they may still consider that stronger action is needed than that proposed by the Board. In particular, they may wish the following to be pursued.

(a) Merger The BL Board is unenthusiastic about the possibility of merger with either Ford or Bedford. Mr Tebbit therefore proposes that the Board should be asked to agree that the DTI should, with BL staff, explore rationalisation possibilities. You may wish to ask

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that officials from the Treasury and the No 10 Policy Unit should be closely involved in order to ensure that the possibilities are pursued vigorously.

(b) Sale The Sub-Committee will probably wish to invite the Secretary of State for Trade and Industry to investigate the possibility of selling Leyland Trucks, or parts of it. They will wish to consider whether there should be any predisposition in favour of a British buyer; and whether, if the only prospects for sale are for sale to a foreign buyer, that is a significant objection. Again, it may be desirable to associate Treasury and Policy Unit officials with any studies.

8. The proposal in paragraph 8 of E(A)(84)8 for the establishment of 'trigger figures' for key results and indicators, and for monitoring progress and possible opportunities for improvement, are likely to be readily accepted in principle. You will probably wish to invite the Secretary of State for Trade and Industry to report in more detail after the discussions with BL which he proposes.

#### Closure of Bathgate

9. In the light of the prospects for Leyland Trucks there seems little alternative to closing Bathgate: closure is forecast to save £42 million over the period 1983-88 in fixed and capital costs, and the withdrawal from engine manufacture to reduce working capital by £32 million. We understand that the Secretary of State for Scotland is being advised to accept this judgement. He is, however, likely to suggest that the possibility of disposing of Bathgate to a foreign manufacturer should be explored. The Secretary of State for Trade and Industry may object to this on the grounds that it will increase foreign penetration of the UK market.



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10. If they agree that Bathgate should be closed, the Sub-Committee will need to consider when that should be announced. The BL Board are anxious to avoid the end of April, when the LM 11 car will be launched. Delay into May would cost money. The Secretary of State for Trade and Industry therefore proposes an announcement in the first half of April. The timing will however need to be considered in relation to tactics for handling the miners' strike. It will presumably be for BL, not the Government, to make the announcement.

#### Leyland Bus

11. E(A)(84)19 proposes that action should be taken to allow early sale of Leyland Bus, either with Trucks, or separately. The Sub-Committee are likely to agree with these proposals. They may, however, be concerned that the possibility (which seems fairly slight) of selling Trucks and Bus together should not be allowed to stand in the way of separate sale of Bus. You may wish to invite the Secretary of State for Trade and Industry to submit an early report to the Ministerial Sub-Committee on Disposal of Public Sector Assets (E(DL)) on the options.

#### HANDLING

12. You will wish to invite the Secretary of State for Trade and Industry to open the discussion. Both the Chancellor of the Exchequer and the Chief Secretary, Treasury are likely to have comments. The Secretary of State for Scotland will be particularly concerned about the position of Bathgate. The Secretary of State for Employment will wish to comment on employment implications.

#### CONCLUSIONS

13. You will wish the Sub-Committee to reach conclusions on the following:

- (i) Should the Government seek to require the Board of BL to close Leyland Trucks?

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(ii) If not, should the Government agree that Bathgate should close? If so, when should the decision be announced?

(iii) Do the plans of the BL Board for Leyland Trucks require any modification, particularly regarding

- the possibility of merging Trucks with the operations of another manufacturer in this country;
- the possibility of sale to another (probably overseas) manufacturer;
- the establishment of trigger points for review?

If so, what arrangements should be made within Government for carrying out the necessary work?

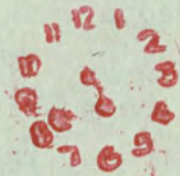
(iv) What work should be done on the possible sale of Leyland Bus?

*PLG*

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