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bcc Peter Warr

10 DOWNING STREET

From the Principal Private Secretary

25 March 1985

BRITISH LEYLAND

I write to confirm our conversation of this morning.

The Prime Minister would like to have a word with your Secretary of State and the Chancellor of the Exchequer about the progress of British Leyland and the handling of its latest Corporate Plan. You told me that the Corporate Plan was likely to be submitted to your Secretary of State by the end of this week, but would probably not be discussed by Ministers until after your Secretary of State returns from an overseas visit in the week beginning Monday 22 April.

We have therefore arranged for the Prime Minister to have a talk with your Secretary of State and the Chancellor of the Exchequer on Monday 1 April at 1530 here at No. 10. I will arrange for the Policy Unit to brief the Prime Minister on the latest Corporate Plan, and the Treasury will no doubt brief the Chancellor.

I am copying this letter to Rachel Lomax (H M Treasury) and Sir Robert Armstrong.

Perb

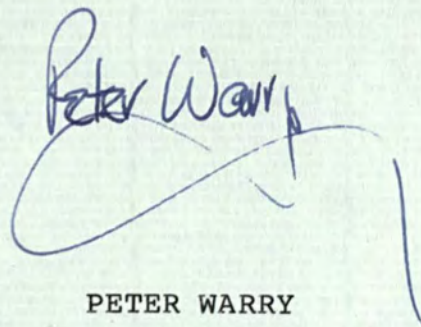
Callum McCarthy Esq  
Department of Trade and Industry

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MR BUTLER25 March 1985BL

The official report on BL should now go to DTI Ministers this week. However, DTI officials are hoping to deal with the BL Plan in Ministerial correspondence because decisions on the privatisation of Unipart and negotiations for the privatisation of Land Rover Leyland are already on-going, and because discussion of Austin Rover should be delayed until the results of their planned mid-year review are available.

In fact there is an urgent need to avoid BL ducking the issues on Austin Rover by placing these into the limbo of a mid-year review. The Prime Minister could quite reasonably request an urgent meeting of Ministers to discuss the future of Austin Rover. Such a meeting could also review progress on the privatisation of the other parts of BL.



Peter Warry

PETER WARRY

copy

BL

MARCH 1985

15/3/85

BL

By the time of last year's Corporate Plan, Ministers had become increasingly frustrated at the lack of progress in privatising any parts of Land Rover-Leyland. To head off this criticism BL promised a mid-year review to address the issues. This review dragged on into September and October by which time BL recommended it should be incorporated into the 1985 Corporate Plan which was to be delivered shortly. In the event the Corporate Plan did not arrive until the week before Christmas and the LRL privatisation strategy was a very small and very dead mouse labelled 'call us again in 1989'.

Austin Rover

The 1984 Corporate Plan for Austin Rover projected a total profit of £183 million for the six years 1984 to 1989 (after adjustments for accounting changes). The 1985 plan shows profits for the same period more than halved, down to only £84 million. Both officials and BL consider that there are major risks even with this much reduced plan. Even if met, the plan entails an expansion of gross Varley Marshall assurances of just under £1 billion.

Clearly, there is an urgent need to stem HMG's downside risks. BL have responded by offering a mid-year review! But action is needed now not next year, particularly if all delay is likely to yield is another dead mouse suggesting either total support or immediate closure. Yet there are many radical options between these extremes - none particularly palatable but all much better than continuing as we are.

There is, however, a school of argument that says it is the BL Board's responsibility to run the company (however badly

it does it) and that officials should not and cannot second guess the BL Board: that they should act as . a highly paid postbox but nothing more.

It may be that we cannot wholly second guess the BL Board, but what is essential is that we do not allow them to play for time that is charged up to our meter. The right course must surely be to set a tight limit on Varley Marshall assurances now ie starting with 1985. It would then be their responsibility to produce plans to live within these constraints. If it creates major difficulties for them, then no doubt this will influence the urgency with which they develop new plans.

#### Land Rover-Leyland

The Salton talks, and particularly the Secretary of State's personal intervention, are most encouraging. But it would be wrong to put all of our eggs in this particular basket. We must ensure we have alternative actual bidders for parts of the LRL business, not only as a fall-back but also to help our negotiating position on Salton. This is not unethical, after all we know that they are already talking to at least three other European manufacturers.

P. W



10 DOWNING STREET

Prime Minister

Robi - this is  
a spelling - must  
do it with  
No more  
Debt

Attached

the BC minute you  
discussed with John. As  
you know, we thought it  
would be most useful at  
the point when DTI submitted  
their conclusions. At long  
last, the Plan is to be  
submitted to Ministers by  
the end of next week

DF

22/3