

PRIME MINISTER11 March 1986BL

You asked how Austin Rover's £1.6b capital expenditure programme for the period to 1992 was to be financed. It is not quite as bad as it sounds because most of the money comes from depreciation. Profit is always calculated after allowing for depreciation, so in effect each year's depreciation provision is money that is available and set aside for use, normally against future capital expenditure. Very crudely whilst Austin Rover's capital expenditure over the period is £1.6b their depreciation provision is £1.3b. They therefore only need £300m of new money.

The £300m comes mainly from additional borrowings of £250m. The remaining £50m is meant to be provided from profits which are also required to finance a £100m increase in working capital. Unfortunately, the likelihood is that Austin Rover will succeed in spending the money but not in generating the profit!

You also asked about demonstrator vehicles and the sale of new cars as second-hand. Last year Austin Rover sold roughly 18,000 demonstrator cars to dealers at discount prices. This is considerably more than the dealers required for actual demonstrating, and a fair proportion of these would have been sold directly as 'second-hand'.

Austin Rover have also artificially boosted their performance by two other tricks. Firstly, they sold an extra 10,000 cars wholesale to dealers at the end of last year on particularly advantageous terms. This dramatically improved their 1985 cash flow but as a consequence their performance in January and February of this year will have been proportionately worse.



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Because these cars were sold wholesale they will not have been registered until this year and therefore will not have affected last year's market share. But the other trick does affect the market share. Under this scheme, senior employees throughout BL are allowed to hire cars from Austin Rover. In order to boost the company's market share these cars are normally replaced twice each year. This and similar schemes enabled Austin Rover to 'sell' 20,000 cars during last year.

X | Total Austin Rover sales last year were 480,000 cars but without the sale of the demonstrator vehicles and the employee cars their UK market share, instead of being a miserable 17.7% would only have been around 15.5%.

*Peter Warry*  
PETER WARRY

X is I think slightly unfair. These cars were sold. The effect of BL's shenanigans was to sell them at a discounted price.

*DLW*  
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