

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
MONDAY 10 DECEMBER 1979 at 4.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Michael Heseltine MP  
Secretary of State for the  
Environment

The Rt Hon John Nott MP  
Secretary of State for Trade

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Hon Nicholas Ridley MP  
Minister of State, Foreign  
and Commonwealth Office

Sir Kenneth Berrill  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D R Instone

SUBJECT

BRITISH LEYLAND

BRITISH LEYLAND

The Committee considered a paper by the Secretary of State for Industry E(79)74. Their discussion and conclusions reached are recorded separately.

The Committee considered a paper by the Secretary of State for Industry E(79)74, about the future plans and funding of British Leyland (BL). The Minister, in the course of the discussion, said that the Committee had to look at BL's Corporate Plan. Before decisions could be made, however, it would be necessary to seek further information and to have the views of the new Chairman of the National Enterprise Board, Sir Arthur Knight, and of the Chairman and members of the BL Board. The first priority would be to determine how far the proposals in the Plan had been affected by the deterioration in BL's performance since it had been taken over. For this purpose BL should be asked to provide revised and up-to-date accounts including, particularly, the latest statements of profits and losses. In addition, a clearer definition was needed, that was contained in the letter from Sir Michael Edwards to Sir Leslie Sharp dated 7 December, of the circumstances which would cause BL to abandon their plans. These circumstances were not at the present sufficiently defined. Clear benchmarks were needed by individual profit centres, against which progress in the Plan could be judged. It was also particularly important to have Sir Michael Edwards's view of his own future. Sir Michael had only another year to run, but he had established a reputation in the affairs of the Company, and his intentions were central to deciding the best course for the future. The immediate response of the Committee was for the Secretary of State for Industry, together with the Secretary of State for Trade and the Chief Secretary, Treasury, to...

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(79) 18th Meeting Minutes  
MONDAY 10 DECEMBER 1979 at 4.00 pm

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BRITISH LEYLAND

The Committee considered a note by the Secretary of State for Industry (E(79) 74), about the future plans and funding of British Leyland (BL).

THE PRIME MINISTER, summing up the discussion, said that the Committee had had a useful first look at BL's Corporate Plan. Before decisions could be reached, however, it would be necessary to seek further information and to have the views both of the new Chairman of the National Enterprise Board (NEB), Sir Arthur Knight, and of the Chairman and members of the BL Board. The first priority would be to determine how far the proposals in the Plan had been affected by the deterioration in BL's performance since it had been written. For this purpose BL should be asked to provide revised and up-to-date forecasts including, particularly, the latest forecasts of profits and cash flow. In addition, a clearer definition was needed, than was contained in the letter from Sir Michael Edwardes to Sir Leslie Murphy dated 7 November, of the circumstances which would cause BL to abandon their plans. These factors were not at the present sufficiently defined. Clear benchmarks were needed, if possible by individual profit centres, against which progress in implementing the Plan could be judged. It was also particularly important to know Sir Michael Edwardes's view of his own future. Formally his appointment had only another year to run, but he had established a dominating position in the affairs of the Company, and his intentions were crucial in assessing the best course for the future. The immediate sequence of events should be for the Secretary of State for Industry, together with the Secretary of State for Trade and the Chief Secretary, Treasury, to see

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Sir Arthur Knight in order to obtain his views on the matters which the Committee had discussed. Thereafter Ministers should meet Sir Michael Edwardes and selected members of the BL Board to review the position. The Committee recognised the wish of BL to conclude their proposed deal with Honda in the near future. If it proved impossible for the Government to reach final decisions before this had to be concluded, the Government would not stand in BL's way, provided that it was clearly understood that the Government had reached no decisions on approval or funding of the Plan.

The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. Invited the Secretary of State for Industry to discuss British Leyland's proposals with the Chairman of the National Enterprise Board, on the basis set out in the Prime Minister's summing up and for him to inform the Chairman of British Leyland of the Government's proposals for a further meeting with the Chairman and members of the British Leyland Board.

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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UNCIRCULATED SUPPLEMENT TO THE  
LIMITED CIRCULATION ANNEX TO  
E(79) 18th MEETING MINUTES  
MONDAY 10 DECEMBER 1979 at 4.00 pm

BRITISH LEYLAND

The Committee considered a note by the Secretary of State for Industry (E(79) 74), about the future of British Leyland (BL).

THE SECRETARY OF STATE FOR INDUSTRY said BL had submitted their Corporate Plan for the next five years to the Government with a request for approval and funding. The plan had been examined by officials, and he agreed with their view that its chances of success were less than 50 per cent. The funding proposed would require significant additional expenditure beyond that contained in Public Expenditure Survey (PES) allocations and BL's performance had further deteriorated since the plan was written. However, if the plan failed it would be preferable for the resulting run-down to be handled in a controlled and orderly way. Legal advice suggested it would not be possible to appoint a receiver so that the co-operation of the present Board would be necessary if a sudden collapse of the Company were to be avoided. All estimates were very uncertain but the cost of collapse could be perhaps £1,400 million on the Public Sector Borrowing Requirement (PSBR) in the coming year, with perhaps 200,000 jobs lost in the Company and among its suppliers. The extra cost of supporting the plan for one further year, followed by an orderly rundown, might not be much more than this, because the investment to be carried out in the intervening period should increase BL's asset values and the first year cost would be much less. In a letter dated 7 November to Sir Leslie Murphy, Sir Michael Edwardes had made it clear that in the event of shortfalls in performance due to internal factors, the BL Board would have no hesitation in

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recommending that the plan should be abandoned. BL wished for an early decision from the Government, so that they would not lose the option of signing a proposed collaboration deal with the Japanese firm, Honda; this was due to be signed on 20 December. He proposed, therefore, that the plan should be supported by the Government, but without commitment beyond the end of 1980. If this were agreed, then he would seek, in conjunction with the Chancellor of the Exchequer, to negotiate with the National Enterprise Board (NEB) and BL arrangements for funding so as to minimise the extra call on Government expenditure above PES limits. He would also attempt to seek Sir Michael Edwards' agreement that there should be discussions over the next few months with potential purchasers of BL, including Japanese and European vehicle manufacturing companies, so that the scope for disposal of as much of BL as possible could be ascertained and implemented in the event of the plan being clearly seen to fail. The prospects of disposing of BL's volume car operations as a going concern should not, however, be regarded as high - although prospects were better with specialist cars, parts and commercial vehicles.

In discussion, the following main points were made:-

- a. The chances of the plan succeeding in pulling BL round to viability were not high. There were signs of a changed attitude by the workforce under the leadership of Sir Michael Edwards but the Company's past performances had consistently been disappointing and large sums of public money had been provided to little avail. The Government's overall strategy towards BL should, therefore, take full account of the possibility - and indeed likelihood - of failure. This meant, among other things, being ready to secure an orderly rundown through disposals of as much as possible of the Company's assets as going concerns to other manufacturers. The Government should certainly not base its attitude to the Company on delusions that it had a viable future as an independent manufacturer.
- b. The BL Board had not sufficiently defined the circumstances which it would regard as indicating failure of the plan, and there was a strong risk that if the plan were approved and funded now, even on a limited basis, the Government would be faced with exactly the same problem in a year's time, with the BL Board then arguing that circumstances did not require them to abandon the plan but

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merely to modify its assumptions for future years. Greater precision was needed about the conditions which would cause BL to abandon the plan than those set out in the letter from Sir Michael Edwardes to Sir Leslie Murphy of 7 November.

c. BL's performance had significantly deteriorated since the plan was written, with the result that key assumptions in the plan before Ministers, including financing needs and market share, were already out of date; it was unreasonable to expect the Government to approve a plan on this basis. Up to date information was urgently needed together with independent advice on the situation it would reveal. Sir Arthur Knight, the new Chairman of the NEB, might be able to offer such advice.

d. There was doubt about the personal commitment to the plan of the members of the BL Board, and of Sir Michael Edwardes in particular. The latter had only a further year to run on his present appointment and had not indicated whether he would be willing to stay on longer to carry the plan through or to supervise an orderly rundown of the Company. It would be most helpful to have an indication of his attitude and intentions.

e. If the Government did not approve the plan, the resignation of the BL Board was almost certain. In these circumstances it would be particularly difficult, if not impossible, to secure an effective managerial team to replace the existing Board, and the uncontrolled collapse of the Company would be a real possibility. On the other hand, the Government would equally be open to criticism if it approved a very expensive plan without adequate appraisal. Moreover, BL's senior management was not of uniformly excellent quality.

THE PRIME MINISTER, summing up the discussion, said the Committee had had a useful first look at BL's Corporate Plan. Before decisions could be reached, however, it would be necessary to seek further information and to have the views both of the new Chairman of the NEB, Sir Arthur Knight, and of the Chairman and selected members of the BL Board. The first priority would be to determine how far the proposals in the plan had been affected by the deterioration in BL's performance since it had been written.

For this purpose BL should be asked to provide revised and up to date forecasts including, particularly, the latest forecasts of profits and cash flow. In addition, a clearer definition was needed, than was contained in the letter from Sir Michael Edwardes to Sir Leslie Murphy dated 7 November, of the circumstances which would cause BL to abandon their plan. These factors were not at the present sufficiently defined. Clear benchmarks were needed, preferably by individual profit centres, against which progress in implementing the plan could be judged. It was also particularly important to know Sir Michael Edwardes' view of his own future. Formally his appointment had only another year to run but he had established a dominating position in the affairs of the Company and the Government needed to know his intentions. The immediate sequence of events should be for the Secretary of State for Industry, together with the Secretary of State for Trade and the Chief Secretary, Treasury, to see Sir Arthur Knight in order to obtain his views on the matters which the Committee had discussed. Thereafter Ministers would meet Sir Michael Edwardes and selected members of the BL Board to review the position. The Committee recognised the wish of BL to conclude their proposed deal with Honda in the near future. If it proved impossible for the Government to reach final decisions before this had to be done the Government would not stand in BL's way provided that it was clearly understood that the Government had reached no decisions on approval or funding of the plan.

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