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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH LEYLAND'S CORPORATE PLAN

Memorandum by the Secretary of State for Industry

The Report by the Chairman of the Interdepartmental Official Group on BL's Corporate Plan is circulated as E(80)141. The Report and its conclusions are summarised in paragraphs 3-22; and attached to the Report at Annex A is a Report by a sub-group under Treasury Chairmanship dealing with the effects of a decision to close BL's car operations.

2 The majority of the Group recommend that we should endorse the Plan, and commit at least the first year's funding with provisional approval for the second. The costs of this (and the other options considered) are set out in Annex A in both cash and Survey prices. The issue revolves - as it has always done - around the prospects for the volume cars part of BL. There are three views on this:

- a) The majority view is that there is a reasonable chance, but no more, of the Plan's carrying BL through to a position by the mid-1980s which (though short of full commercial viability) will enable the Government to be relieved of primary responsibility for funding and conceivably enable BL to attract major collaboration or even external shareholding. On this basis, particularly in view of the even heavier PSER and wider social and economic consequences of the alternative closure course, we should approve the Plan in principle.
- b) The second view holds that the chances are slim, but not necessarily to be immediately dismissed. But since the objections to dissolution now are very strong, and a refusal to approve the crucial LM10 mid-car programme would precipitate dissolution, we should on this view approve the proposals now but with the objective of enabling the Government either to extract itself at the earliest possible moment or, if the slim chance of success actually materialises, to continue with the programme.

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- c) On the third view, the chances of success are so slim that the risk is not worth taking; and we should therefore move immediately to dissolution.
- 3 On the views at either (a) or (b) above, the immediate action is the same: we should approve the Plan in principle (subject to the issues discussed below); but BL would be told to prepare for the probability of early dissolution if the prospects do not improve substantially during 1981. I do not believe the second course is feasible: either the BL management would resist such a remit to the point of resignation, or we should find ourselves having to take decisions at variance with our endorsement of the Plan, and either management or the labour force would react in a way that made inevitable the very dissolution of BL which the policy was intended to avoid.
- 4 I cannot feel confident of the prospects for success. BL's financial projections are particularly sensitive to the exchange rate. An exchange rate path, say, 10% higher or lower than that assumed (which is in line with Treasury thinking) would make, on a crude calculation, a difference of some £1 billion in the sums required over the period of the Plan: the higher path would in fact undermine the Plan completely. On the other hand, apart from the serious effects of the exchange rate and other economic conditions on their performance in 1980, BL have made some important progress in the last year. In particular, their success in bringing out the Metro on time and to cost, and its very favourable reception, would make it difficult to withdraw, without good cause, the support we have continued so far. Moreover, despite the recent threat of industrial action over the national pay award, Sir Michael Edwardes' threat of closing the BL Cars operation did in fact secure a withdrawal from the extreme position adopted by the unions.
- 5 These factors, together with the even more appalling cost of closure in terms of the PSBR and the wider social and economic consequences, including the effect on component suppliers, lead me to the view that we should continue to support the Plan despite its heavy public expenditure cost. In terms of employment, there are costs to be borne either way. Even if we support the plan, there will still be a further 6,500 jobs lost in BL Cars by demanning in the next two years, and the financing of the programme by taxation or borrowing will put at risk more jobs elsewhere in the economy. But the alternative option of dissolution would mean the immediate and geographically concentrated loss of some 69,000 jobs in BL Cars, perhaps another 70,000 in the components and supplying industries in the next two years, and still more jobs put at risk elsewhere in the economy by the need to finance the even higher PSBR cost of this dissolution option. On employment grounds, therefore, the short-term balance is likely to be strongly in favour of supporting the Plan. I recognise that there would be some advantage if we decided to close BL Cars, but at a time when the PSBR is so stretched, when employment is so high and when the company is moving in the right direction, I cannot recommend this course.
- 6 There is a further general point which reinforces this. As a Government we have adopted the previous Administration's policy of attempting to restore BL to viability. We have adopted and backed Sir Michael Edwardes. He has done nothing wrong in the public eye and many things right; and it would be politically extremely difficult not to back him now.

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Moreover, we would face a difficult dilemma if we were not able to retain him as Chairman of BL. He has written to me saying that he would not feel able to consider staying on as Chairman and Chief Executive after the present arrangements come to an end in 1981 unless the Government agrees to fund the Corporate Plan until the launch of the LM10 medium-sized car in spring of 1983 (ie for the next two financial years), and to accept BL's strategy for Land Rover, Jaguar and Unipart.

7 This brings me to three subsidiary issues of particular importance:

- i) whether we should press for immediate disposal of Land Rover: Because sale of Land Rover would precipitate repayment of substantial medium term loan stocks, the net proceeds of an early sale would be small. Moreover, Sir Michael Edwardes has made it very clear to me that he would not himself accept an enforced sale of Land Rover mainly because he sees the company as a potentially vital bait to attract other car manufacturers into collaborative arrangements with BL which could help to resolve the volume cars problem for the longer term. Reluctantly, I accept this position; though I propose that we should tell Sir Michael Edwardes (though not announce) that we continue to favour a sale of Land Rover in 1982 or thereafter if the conditions then favour it and if the company's use as bait for a wider collaboration has not by then materialised.
- ii) disposal of Jaguar: the case for seeking another company willing to take on responsibility for Jaguar is not that it would save us PSBR costs (for it would probably not, since the company's recent and prospective losses and its large requirements for investment would almost certainly require us to give a substantial "dowry"), but that the future of the company could be better assured in other management hands. This is an attractive argument, but for two reasons I do not think we should pursue it. First we can only establish whether there is likely to be a taker by putting the company up for sale, and if there proved to be no taker, this would inevitably become known and help to precipitate a collapse of the company's market. Second, and perhaps more conclusive, is the firmly held opposition of Sir Michael Edwardes who has made it plain that he would not be prepared, for the reasons described above, to accept an enforced disposal against his management judgment.

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- iii) the conditions to be attached to approval: the Report of officials recommends that approval should be in the form of an endorsement of the Plan in principle, including the central LM10 mid-car programme, with a firm commitment for expenditure in the first year and a provisional approval for the second. This would be subject not only to continuous monitoring and a review of next year's Corporate Plan at the end of 1981, but also to a letter which Sir Michael Edwardes has volunteered to send expressing the Board's intention to review the Plan if there were a major strike or any other change in circumstances which made the major objectives of the Plan unachievable. It was a letter on these lines in relation to last year's Plan which can be held to have successfully prevented major industrial relations disruption in 1980. It could be argued that the Plan should have been withdrawn when it became clear this year that BL could not meet its profit forecast. On the other hand, Sir Michael Edwardes did, in effect, give Ministers a chance earlier this year to ask him to withdraw the Plan. Moreover he has succeeded in his main objective of not asking the Government for more than £300 million in 1980. I have been much attracted by the idea of imposing more specific, though private, conditions relating particularly to the removal of known trouble-makers among the shop stewards. Sir Michael Edwardes has made it plain that he will take appropriate opportunities to dispose of trouble-makers, as he did in the case of Mr Robinson and as he has done in the recent dismissal of shop stewards at Longbridge following a disturbance there in late November. He would however resist a specific condition, and on balance I conclude that we should accept a letter on the lines he proposes as the most worthwhile demonstration of conditionality.

Although the funding requested makes provision for the commercial vehicles side (Leyland Group), BL have not yet finalised their Plan on this and we shall need to review that early in 1981. The possibility of a major comprehensive collaboration between Leyland Group and another commercial vehicle manufacturer, if one can be found, is very much part of BL's thinking.

- 8 BL propose to split their operations for management purposes into four separate businesses, namely BL Cars, Leyland Group, Land Rover and Unipart. This would not only be beneficial managerially but would also help to protect the better parts if eventually the worse parts fail. It would also make it easier to sell them in due course. I am sure we should welcome this move.

- 9 The shares of BL are still held by the NEB. My present view is that we should announce the transfer of the shares to the Secretary of State when we announce our decisions on the Corporate Plan. This would match the action we have already taken on Rolls Royce (1971) Limited, and would accord with the monitoring arrangements for BL which are already in force. The Board of BL are content for such a transfer to take place after enactment of the current Industry Bill.

10 I recognise that funding the Plan has major and unwelcome public expenditure and PSBR implications, particularly in 1981-82 and 1982-83. These are unavoidable whether we fund the Plan or not, and much heavier in the short term under the dissolution option. The Plan would involve an additional £620 million (£425 million in 1980 Survey prices) in 1981-82, and £370 million (£271 million in Survey prices) the following year. I cannot make offsetting economies within other industrial programmes. I recommend therefore that these sums should be found from the unallocated Contingency Reserve and that the figure for the second year should be regarded as provisional. In order to ease the Government's public expenditure problems, BL hopes to arrange increased short term facilities from the banks to tide it over the first three months of 1981 in order to avoid additional pressure on the PSBR in 1980-81. This has meant that their 1981-82 requirements from the Government cannot be reduced. There are a number of subsidiary financial issues which I propose to discuss separately with the Chancellor. These relate to the arrangements for attracting private funds to help to finance the Plan, to limit the call on public finance.

- 11 We shall need clearance from the European Commission if we do agree further funding for BL. Given the large sums involved, hard bargaining may be needed to obtain Commission approval.

12 Neither the provision of funds for BL nor the transfer of BL from the NEB would have any consequences for public sector manpower. A closure of BL Cars, however, would lead to increased pressure on certain local offices of the Departments of Employment and Health and Social Security.

- 13 BL performance has undoubtedly shown material improvement in some important areas in 1980. A central factor in this improvement has been the conviction of the workforce that Sir Michael Edwardes would not be afraid to close BL's cars business if the need arose and that the Government would not restrain him from doing so. I believe Sir Michael can be relied on to sustain this conviction in 1981, and abide by the commitment underlying the letter he has offered to send.

- 14 In summary, I therefore recommend:
- a) that we should approve the BL Corporate Plan in principle, together with the LM10 mid-car programme, with a firm commitment for funding for the first year of £620 million (£425 million at 1980 Survey prices) and provisional approval for the second year of £370 million (£271 million at Survey prices), subject to review of next year's Corporate Plan and to the receipt of a letter from Sir Michael Edwardes setting out the Board's intention to review the Plan if there were a major strike or a significant change in other circumstances;
 - b) that we should not press for immediate disposal of the Leyland Group, Land Rover or Jaguar, but that BL should be told that we still favour a disposal of Land Rover at an appropriate time from 1982 onwards, if by then the company has not been used as part of a wider collaborative package;
 - c) that the shareholding should be transferred from the NEB to the Secretary of State;
 - d) that we should approve BL's proposed reorganisation into four separate businesses; and
 - e) that detailed questions on private finance etc should be resolved between myself and the Chancellor of the Exchequer.

K J

Department of Industry
15 December 1980

This Annex sets out the costs of the various options contained in E(80)141 in both cash and 1980 Survey Prices (provisional).

ANNEX A

| | 1981/82 | | 1982/83 | | 1983/84 | | Total | |
|--|---------|--------|---------|--------|---------|--------|-------|--------|
| | Cash | Survey | Cash | Survey | Cash | Survey | Cash | Survey |
| Funding the Plan (PE) | 620 | 486 | 370 | 271 | 100 | 70 | 1090 | 827 |
| Funding Cars Plan PE | 520 | 408 | 320 | 234 | 100 | 70 | 940 | 712 |
| Closing BL Cars PE including Jaguar PSBR | 935 | 723 | 635 | 459 | 450 | 310 | 2020 | 1492 |
| Closure Jaguar alone | 1215 | 940 | 985 | 712 | 730 | 503 | 2930 | 2155 |
| | | 57 | 45 | (17) | (11) | (8) | 29 | 25 |
| | | 95 | 74 | 33 | 24 | 29 | 157 | 118 |
| Funding BL Cars Plan with closure Jaguar alone | 577 | 453 | 303 | 222 | 89 | 62 | 969 | 737 |
| | 615 | 482 | 353 | 258 | 129 | 90 | 1097 | 830 |
| Funding Leyland Group Plan | 100 | 78 | 50 | 37 | - | - | 150 | 115 |