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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

FUTURE OF BL LTD

Memorandum by the Secretary of State for Industry

BRITISH LEYLAND

Since the Committee discussed this subject on 10 December, (E(79)18 meeting - limited annex,) the Secretary of State for Trade, the Chief Secretary and I have reviewed the main issues for decision with Sir Michael Edwardes and his Board. Prior to doing this the Chief Secretary and I asked Sir Arthur Knight whether the new Board of the NEB could provide the Government with a considered assessment of the BL Plan. Sir Arthur told me that it would not be possible for his new Board to provide a responsible assessment in less than two months.

BL'S FINANCIAL POSITION

The Secretary of State for Trade had a detailed discussion with BL's Finance Director. He, the Chief Secretary and I are satisfied in the light of his talk and our joint discussion with the BL Board that the revised and up-to-date forecast of 1979 profits and cash flow provided by BL demonstrate that the BL Board's funding bid almost certainly reflects the minimum level of additional cash needed to implement the Plan; the effect on the Plan is that the original contingency built into the forecasts have been eroded by the CSEU strike and the Robinson disruption, leading to the poor performance of the last two months.

CIRCUMSTANCES IN WHICH THE PLAN SHOULD BE WITHDRAWN

My colleagues and I have had a very thorough discussion with the BL Board on this question and have obtained the attached formal statement of the Board's position. There is no doubt in our minds that the BL Board is deeply conscious of the risks and will not hesitate to tell us if they conclude that the Plan is no longer achievable; and will collaborate fully and publicly with any consequent necessary action. As I have already said in my minute to the Prime Minister of 14 December it is not in our view necessary to try to define the precise conditions under which the Plan should be withdrawn. In practice it does not matter whether the cashflow ceases to be adequate for external or internal reasons. Officials and the company are already working on contingency planning.

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## NEED FOR AN EARLY DECISION

Sir Michael and his Board have stressed the paramount importance of an early decision. Sir Michael Edwardes needs to sign the agreement with Honda by Honda's deadline of end-December to avoid the risk of losing it altogether. It is a key element of the Plan and without it the Board could not proceed with the Plan. In addition the uncertainty about whether the Plan will or will not be accepted is causing nervousness amongst customers and dealers, and daily worsening the company's position as well as setting back a number of other collaborative deals under negotiation. The Secretary of State for Trade, the Chief Secretary and I are agreed that we cannot afford to wait two months for the advice of NEB, but must make our decision before the Recess.

## CONCLUSION

The conclusion of my previous paper (E(79) 74 ) was that we should agree to approve BL's 1980 Corporate Plan and to provide the necessary funding. The subsequent discussions have reinforced me in this view, in which the Secretary of State for Trade and the Chief Secretary concur. If colleagues generally accept this, I would propose to announce the decision in the House on Thursday 20 December, in a Statement on the lines of Annex B.

## OUTSTANDING FUNDING ISSUES

The Chancellor has agreed that if colleagues accept my recommendation the BL Board's funding request for £297 million next year should be met in full if necessary and that the conversion of £150 million loans to equity may also go ahead. The timing and method by which the funds should be made available over and above the £150 million 1980-81 PES allocation are being discussed with the Treasury and BL and I will report orally.

## RECOMMENDATION

I invite my colleagues to agree that I should proceed accordingly in consultation with the Chancellor.

K J

Department of Industry  
Ashdown House  
123 Victoria Street

17 December 1979

## POSITION OF THE BL BOARD

The 1980 Corporate Plan sets out the BL Board's proposals for the future. It contains the Board's plans to put the Company on a sound footing for the 1980's. However, the Board does have serious concerns about the Plan, in particular:

- the fact that the Plan falls short of the financial objectives which had been set for the Company;
- the need for a significant improvement in productivity;
- the need for a significant demonstration of commitment from employees for the Recovery Plan;
- the fact that the current world economic environment and outlook are unfavourable for the development of the Company's business;
- the recent serious erosion of the Company's current financial position through the CSEU dispute, the dispute following the dismissal of Derek Robinson, and the loss of market share (largely due to lack of confidence in BL's future).

On the other hand advances have been made during the year. Before the CSEU dispute production had settled down and productivity was rising at a number of important plants. There was an 87% "Yes" vote in favour of the Company's Plan in the secret ballot of all BL employees. The Board has successfully shown firmness in dealing with recent unconstitutional action. Wage negotiations in BL Cars are proceeding smoothly and the management has confidence in a satisfactory outcome.



In any decision the Board considers it will be necessary for the Government to base its judgement on the importance of BL to the economy as a whole, on the consequences of not going ahead with the Plan, and on the progress that the company is making in the industrial relations area. From a purely commercial point of view the risks outweigh the opportunities. But in spite of that the Board is of the view that it is possible for the Company to recover and achieve viability. In any case the Board considers the present time is the worst moment to abandon the attempt at recovery; several major investment programmes are in mid course and should be completed, notably the Heavy Truck, Mini Metro and Land Rover programmes.

In the light of all this the Board considers it right to seek from Government the funds necessary for the implementation of the Plan and stresses that the amounts specified are an irreducible minimum and provide a very slender margin. It states too that it is vital to the success of the Plan that BL now signs the deal that has been negotiated with Honda.

The Board emphasises the very considerable hazards from both within and without the company which face the Board and management in achieving the Plan. On the basis that the necessary funding is provided the Board will pursue the Plan with determination and will monitor closely the company's performance in a number of key aspects. If, in its judgement, it considers shortfalls in performance place the achievement of the Plan in jeopardy then the Board will have no hesitation

in recommending to the NEB and the Government that the Plan should be abandoned. Events which would be critical to such a conclusion are:

- major disruption of the Company's actions by strike action;
- significant shortfall on the Company's cash flow objectives;
- failure to deliver the Plan in any significant aspect; in particular, in regard to completion of programmes and launch of new products (including Honda), closure of plants and achievement of redundancies on time, and failure to deliver improved productivity and working practices called for in the ballot and provided for in the BL Cars' wage negotiating package.

On the basis that funding is provided now, the Board will arrange on a highly confidential basis to put in hand contingency planning against the possibility that the Plan has to be withdrawn. If subsequently the Board comes to the conclusion that withdrawal is necessary, it will consult with the NEB and the Government about what should be done; and will collaborate fully with the consequent necessary action.

BL Ltd  
14 December 1979



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## DRAFT PARLIAMENTARY STATEMENT ON BL

Since entering public ownership in 1975, BL has received public funds amounting to £775M, in addition to the £246M which was spent in 1975 on acquiring the company and providing them with an initial equity injection. Our predecessors had also undertaken to provide the £225M remaining from the financing programme recommended by Lord Ryder, on condition that BL's performance and prospects justified this investment.

In reviewing BL's 1980 Corporate Plan - and indeed throughout the period since we came into office - the Government has therefore borne very much in mind its responsibilities to the taxpayer as well as to all those concerned with the viability of BL. We have asked ourselves whether BL's performance has justified the investment; whether, if it has not, there are reasonable grounds for believing that performance can now be improved sufficiently to restore the company to viability; and by what means further public funding of BL could be avoided in whole or in part.

We have to accept that by the key yardstick of overall productivity, market share and profit the performance has been disappointing. But the present management has been in post for only 2 years. After a sound financial start in 1978 however BL have suffered major setbacks this year. A combination of industrial disputes - mainly the externally inspired disputes involving the road hauliers and the engineering industry - the strengthening of sterling and a further fall in market share threaten to result in actual trading losses for the first time since the Ryder Report. BL's management reacted energetically and with realism by putting forward a restructuring programme in September involving a reduction of at least 25,000 in the workforce and some plant closures, and in a ballot of the BL Cars workforce they received an 87% vote in favour of their programme. These measures to bring down costs in line with market prospects, together with the proposed pay and conditions package which is designed to improve productivity and introduce more flexible working practices in BL Cars, are central to the Plan which BL have now submitted. Details of BL's recent performance and of the Plan are contained in a report by the staff of the National Enterprise Board which I have today placed in the Library of the House. The new NEB Board itself does not feel able, in the limited time available to make recommendations to me about the Plan.

The Plan offers, in the BL Board's view, the only feasible strategy which could enable BL to achieve longer-term viability as a substantial vehicle manufacturer. But starting from when it is and in a highly competitive industry and an uncertain international economic outlook, success cannot by any means be guaranteed.

On the other hand, there are also grounds for hope - the quality and determination of the BL Board; the attitude indicated by the BL workforce in the ballot; the collaboration agreement with Honda which Sir Michael Edwardes proposes to sign shortly with my approval; the new investment now in progress; and the planned introduction over the next few years, starting in 1980, of several new ranges of cars and trucks.

The Plan envisages a requirement for £297M of public funds in 1980, with a further £133M between 1981 and 1983. These two sums together represent the original £225M plus £205M to meet the cost of redundancies and closures under the new management's restructuring programme. The company seek approval at this stage for only their 1980 requirements.

BL aims to make a 15% return on assets by 1985, but achievement of their financial duty of a 10% return by 1981 is expected to be delayed by a year.

After examination of the possibilities, my colleagues and I have concluded that the straight choice in the short term is between full support for the BL Board's Plan and its refusal with far-reaching consequences. The Government has concluded that it would be right to give one last chance for the BL Board, in whom we have the utmost confidence, and the workforce. This means providing the remaining £225M committed by our predecessors, and in addition the £205M required for the costs of redundancies and closures. This latter amount will be subject to clearance by the European Commission. Only a substantial improvement in all key aspects of performance will enable BL to survive. Subject to the clear understanding that this is the last chance, we have approved the Corporate Plan.

The Government propose to fund the Plan for 1980 by the provision of £150M in equity form, with an additional line of credit in the form of subordinated loans on which BL would be entitled to draw on evidence of need up to a maximum of a further £150M. This combination of financing techniques provides both an enlarged equity base to help BL to attract the private sector finance they will need in addition to the public funds and also a flexible method of relating the total amount of funding to BL's actual need. If the need turns out to be less than expected, the public funding can be reduced accordingly. It would be the Government's intention to convert to equity at a later stage the loans to be provided under the credit line arrangement. In addition, we propose to accept the BL Board's request for conversion to equity of the £150M loans provided in 1977. This will also help to strengthen BL's chances of attracting private sector funds. The Government will also be looking to BL to contribute to future funding needs from its internal resources, including the disposal of assets where this makes commercial sense.

Arrangements for a debate