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10 DOWNING STREET

*From the Private Secretary*

24 October 1983

British Leyland

The Policy Unit have produced a note on the privatisation plans for British Leyland. The Prime Minister has asked that this should be shown to the Secretary of State on a personal basis. It is not being copied more widely and I would be grateful if it were not released outside the Private Office.

Andrew Turnbull

Callum McCarthy, Esq.,  
Department of Trade and Industry.

SECRET AND PERSONAL

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MR MOUNT

BRITISH LEYLAND

The Department of Trade and Industry's submission concerning privatisation plans for British Leyland are woefully inadequate and conceal potential risks and dangers for the Government if it continues to follow Department of Industry policy.

1. Jaguar

There is no reason why the whole of Jaguar should not be sold in 1984. The proposal that one quarter of Jaguar should be sold then with the remainder floated in 1985 is based on the premise that Jaguar's profitability will continue to improve and that therefore a higher sale price will be achieved by delay for the bulk of the equity sale. Investors are quite able to discount ahead, and the prospectus in 1984 can make clear the management and Department of Industry's view of the rising trend of profitability.

2. The sale of Unipart is possible in 1984, and there should be a clear resolve to dispose of it within that calendar year.

3. Four-wheel drive vehicles

The British Leyland Board and DoI have decided to link the fortunes of the four-wheel drive operation to those of Leyland Trucks. Leyland Trucks is hopelessly adrift, probably heading for losses of around £100 million in the current year, when taking into account interest charges. There is little common ground between the trucks business and the four-wheel drive operation. The four-wheel drive business is losing market share rapidly, but still has some good products and a prospectus can be drawn up on the basis of it being profitable in the future. This should be done in 1984 and the business sold before it:

- (a) is contaminated by the general problems of the group;
- (b) has insufficient capital to renew its model range at a time of intensifying competition;
- (c) suffers from a lack of management concentration on its problems in view of the greater problems elsewhere.

4. Austin Rover

The prospectus for Austin Rover which DoI and BL are writing envisages sale to investors after 1990. It is a bogus prospectus.

Their cash flow projections assume a continuing outward flow of cash from the business until some magic in 1990 transforms the business into profit and modest cash inflow. The figures conceal the fact that Austin Rover is to embark on a very expensive, 3 new model programme between 1984 and 1989, where the ultimate paymaster must be the taxpayer in view of the continuing drain on the business's finances, and the gross deterioration in the balance sheet which will take place on DTI figures over that time period.

We require from the DTI a paper setting out the detailed options for the future of Austin Rover. These options should include a strategy for speeding up the disposal of Austin Rover on the back of the successful introduction of the Acclaim, Metro and Maestro models. This disposal could take place within the next 2 years and may entail a dowry. A second option should be to continue with Government ownership of Austin Rover, but with a reduced new model-building programme, and a tapering of the financial commitment of the Government under the Varley-Marshall assurances. The third option would be a splitting up of the different operating units of Austin and Rover, and the partial sale of some of these units. The fourth option would be to explore the scope for collaboration with a foreign car producer and a sharing of the risks and capital. There has been little work on the likely future shape of Honda involvement in BL following the XX.

Without such a paper setting out the options for Austin Rover, it will be extremely difficult to judge the commitment to the privatisation plans within the DTI and BL. The Government will be faced with the need to sign a blank cheque, where the numbers involved in Government support could become very large indeed if any small thing goes wrong with Austin Rover strategy as currently set out.

5. Truck and Bus

The current state of the truck business at BL illustrates the dangers of delaying disposal in the belief that things will get

better. Some years ago the case for disposing of trucks when it was still breaking even was rejected on the grounds that the business would strengthen. We are now heading for the worst trading year on record, and there is no sign of any relief. There needs to be a more rapid exploration of the options for collaboration with other companies in the truck division, and also a more serious exploration of the possibilities of sale of the truck business, even with a dowry if necessary.

Conclusion

The strategy towards BL is drifting. The statements about the extent of privatisation commitments are misleading and as the DTI submission on BL illustrates, there is a lack of commitment to the policy by both BL and the DTI.

A handwritten signature in dark ink, appearing to read 'John Redwood', with a stylized flourish at the end.

JOHN REDWOOD