

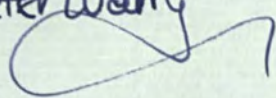
CONFIDENTIAL

no BL 18 BL
slip 14

PRIME MINISTER

As discussed today.
Also attached are copies
of notes sent to Parliament.

20 December 1984

Peter Warr


PRIME MINISTER

BL 1985 CORPORATE PLAN

The BL Plan has arrived. For the 5 years 1984 through to 1988, compared to the previous Plan it shows a reduction of profit before interest and tax (PBIT) of £655 million, but on cash flow is £78 million better. However, if the Jaguar sale is excluded, then there is a deterioration of £375 million on profit, and £206 million on cash.

The overall figures in this Plan are:

	<u>£ million</u>					
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Sales	<u>3,501</u>	<u>3,604</u>	<u>4,024</u>	<u>4,623</u>	<u>5,219</u>	<u>5,681</u>
PBIT	9	11	72	144	182	210
Cash Flow	151	(160)	(75)	2	4	29
Return on						
Assets	1%	1%	5%	10%	12%	13%

Capital expenditure over these years is £1,522 million which compares with total end 1984 assets of only £1,312 million.

Despite the receipts of £293 million for Jaguar and a further £106 million on the partial disposal of the Indian subsidiary

CONFIDENTIAL

CONFIDENTIAL

Ashok Leyland, BL require £335 million of new loans on which they expect Varley-Marshall guarantees from the Government. If creditors and other forms of finance are included, the amount the Government is on the line for will have grown by £600 million to £2,000 million by 1989 if nothing further is sold.

The Austin Rover Plan shows it still uncommercial in 1989 (return on assets 12 per cent) and the Board express concern as to whether even this is achievable. By contrast, Land Rover-Leyland is meant to be fully profitable by then, but this is dependent upon remarkable improvements in performance which from past results seems unlikely.

The track record is not good. Set out below are forecasts for next year's (1985) results as made in the last three Plans:

	<u>1983 Plan</u>	<u>1984 Plan</u>	<u>1985 Plan</u>
<u>Overall BL</u>			
PBIT	257	127	37*
Cash Flow	12	—(100)	—(160)*
Return on Assets	13%	8%	1%

* adjusted to remove the effect of the Jaguar sale

CONFIDENTIAL

CONFIDENTIAL

Year 1985 as forecast in:

	<u>1983 Plan</u>	<u>1984 Plan</u>	<u>1985 Plan</u>
<u>Austin Rover</u>			
PBIT	19	46	33
Cash Flow	(77)	(72)	(63)
 <u>Unipart</u>			
PBIT	27	22	18
Cash Flow	10	14	2
 <u>Land Rover-Leyland</u>			
PBIT	185	34	(15)
Cash Flow	67	(68)	(90)

The appalling Land Rover-Leyland forecasting (a deterioration of £200 million in the profits for the single year 1985) masks what is a comparatively good forecasting performance by Austin Rover. Our concern is that we have had all the good news at Austin Rover - they now have a fully competitive model range, but are unable to achieve more than 18 per cent penetration. For viability, they need nearer the 28 per cent that Ford has. It is going to be much more difficult for them to sustain their current static position than it has been to achieve dynamic improvement of recent years. If things start going wrong, it will happen quickly and expensively.

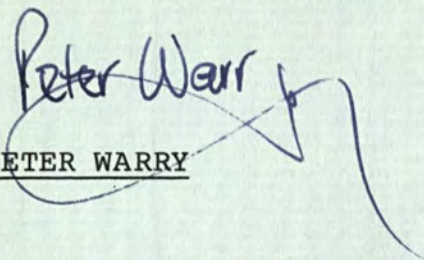
CONFIDENTIAL

CONFIDENTIAL

On privatisation, the Plan takes 20 pages explaining why nothing can be done on Land Rover-Leyland until 1989, yet ignores all the more obvious options of selling the profitable bits (Freight Rover, Self-Changing Gears, and possibly Scammell) or considering partial closures selling what one can in view of the further deterioration in profitability. Joint ventures are not mentioned at all.

Unipart is stated as being ready to be privatised in 1985 or shortly thereafter (but see accompanying note). Austin Rover is not a prospect this decade if they are to cling to not selling it at a discount on assets.

Overall, both the sales and the internal efficiency targets seem optimistic; yet despite this, far from being nearer a viable business or closer to privatisation, we in fact seem to be moving further away.


PETER WARRY

CONFIDENTIAL

1111

IND. POL: BL: P+8

INDIAN POLICE BUREAU

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...

...