10 DOWNING STREET

Prime Minister (4)

BL comes up for discussion on Thursday in E(A).

Pages i – vii of Alfred Sherman's foreword analyse the BL issue.

The summary of Mr Moses' report is right at the start.

AT
17/5

Policy — Search Papers 1

BL: A Case Study in Frustration.

by Trevor Morse
with a foreword by Sir Alfred Sherman

POLICY – SEARCH

"Cogitare qui audet omnia audebit"

POLICY-SEARCH PAPERS NO. 1

BL: A Case Study in Frustration

by

Trevor Morse

with a foreword by

Sir Alfred Sherman

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Summary of Conclusions and Recommendations

The slump in BL's financial performance in 1984 makes it unlikely that its anticipated recovery can proceed as envisaged in 1981, or that the company can be privatised as a single unit. It is now time for a fundamental reappraisal of BL's future. The most effective way to achieve the objectives of offering BL's constituent businesses every chance to achieve viability, and at the same time to ensure their return to the private sector as soon as possible, is to consider their future independently. Therefore, the Government should:

1 Commission from management consultants or a merchant bank a review of the commercial prospects of each of BL's three vehicle manufacturing divisions - Austin Rover, Land Rover and Leyland Vehicles. This review should also recommend annual financial and performance targets and assess options for privatisation, including possible timing, market value and method of disposal.

2 Make clear its intention to wind up BL plc as of, say, 31 December, 1986, and vest its assets in the three vehicle divisions which would have separate boards, management teams and capital structure, and operate from 1 January, 1987 as entirely independent concerns. Subsidiary companies would be dealt with as appropriate.

3 Buy out remaining private shareholders, leaving the Secretary of State for Trade and Industry as sole shareholder.

4 Restructure the company's balance sheets to resemble those of private sector companies, though adjusting equity gearing to suit commercial reality.

5 Set specified financial and performance targets, with time limits appropriate for each company, for achieving sufficient profitability to allow for a return to private ownership. If these targets are not met, contingency plans should be prepared to invite bids for those parts which can be salvaged. In the last resort chronically unprofitable capacity may have to be closed.

Foreword by Sir Alfred Sherman, Chairman of Policy-Search

BL, an Exercise in Unreason

"The sleep of reason breeds monsters".
Goya

This report by Trevor Morse is a case-study in frustration. It is a case-study, because almost every feature of this sad saga can be found reproduced, mutatis mutandis, not only in other nationalised industries (which BL is in all but name) but wherever subsidies or protection are given to nominally private enterprises in order to maintain payrolls at higher levels than economic circumstances permit.

The case of BL cannot be posed and judged in economic and political terms alone. It has profound philosophical implications. It embodies a failure of ideas on a national scale, and in an age of intervention, if the ideas lack incisiveness and coherence, all material and institutional things will go wrong.

The BL episode raises several questions. How far can short term political considerations be allowed to overshadow foreseeable medium and long term effects of choices? How far is it ethically justifiable to draw on national wealth in order to shield groups of workers from the effects of their own irresponsibility and egoism?

How far can it be morally right to subsidise better-paid workers to the tune of thousands of pounds per head per year, necessarily at the expense of those less well off than themselves and often more deserving?

Is the belief that government expenditure on creating jobs can mitigate unemployment anything other than the embodiment of the fallacy of composition compounded by uncritical use of words, e.g. unemployment?

None of these questions is specific to BL, which is only one of the many monsters bred by what Goya named "the sleep of reason".

This is a study in frustration, first because a government which came to office determined to end BL's drain on the public purse found itself frustrated by circumstances seemingly beyond its control. It found its way barred by apparently impassable mine-fields sown by its predecessor: unlimited liability backed by a barrage of flesh-creeping prophecies of financial collapse and civil disorder were purse-strings tightened. The Government came up against an interlocking thicket of vested interests including a civil service consciously or otherwise committed to the perpetuation of its satrapies, suppliers who had become an extension of the public sector by other means, and backbenchers who found special interests more immediately attractive than the common good.

To what extent the government could have found ways of circumventing these obstacles is a tempting question, but it would involve a wide range of hypotheses which could distract attention from consideration of the background to actual choices now open to government in its dealings with BL and also with other importuners who, like the poor, are always with us.

Frustration with the outcome of BL is not confined only to the government, but is almost universal. After the expenditure of two and a half billion pounds of public money (at those days' prices, far more in current terms) none of the objectives which motivated those who created and nurtured BL from 1975 onwards have been achieved. The intended beneficiaries are doomed to bitter disappointment, more bitter than had hopes not been raised and nature been allowed to take its course in the first place.

BL's market share has fallen and seems certain to continue to fall. Whatever future the British car industry may have, no one relies any longer on BL to assure it.

BL's contribution to the balance of payments has declined. The fall is more than just a function of BL's declining market share and exports. In order to reduce its losses, it has turned abroad increasingly to meet its need for components, which was declining pari passu with sales. Et propter vitam vivendi perdered causas. It thereby progressively deserted the British suppliers, in whose name BL had been propped up in the first place, and who had marched so vociferously and effectively in the van of Sir Michael's army of supplicants, with their retinue of West Midlands Conservative MP's.

Employment, a major objective of the Benn rescue, has fallen, and will continue to fall.

In this decline, BL is a paradigm of all nationalised and supported industries. Support, however lavish, cannot halt their decline, but can only slow it down, at incommensurate cost which could have been dedicated to better things. It could even be demonstrated that subsidy and other protection only perpetuate and even exacerbate the very decline they are ostensibly designed to cure, by diminishing the need to obviate practices wholly or partly at its root. There are parts of the world which pay higher real wages than we do where unsubsidised coal and motor-cycle industries thrive and expand - to name but two cosseted branches which have declined here in the one case, failed completely in the other.

The roots of the government's present dilemmas reach down to BL's birth, not just back to Benn, but further back to when a series of mergers sponsored - or imposed - by the government of the day sought a way out of difficulties by adding good apples to rotten ones, in the quaint belief that it was the rotten ones which would thereby be cured. (Our new pragmatism seems to have left no room for folk wisdom.) In a sense, Benn's de facto nationalisation was the culmination of a process, begun years previously, of herding the lean cows together with the fat cows, in the apparent hope that the latter would eat the former.

This was the state of affairs which Sir Michael Edwardes inherited.

Like many nationalised industry chairmen, Sir Michael did well out of the British public's sporting instinct to give a chap a fair chance. With most nationalised industries, the incumbent or newcomer, provided he is reasonably good at communication, can obtain funds and breathing space, and Sir Michael showed himself more of a politician than either Sir Keith or Patrick Jenkin, against whom he was pitted. (To be quite fair, both gentlemen might object that this is not saying very much, and that they would wish to be remembered for qualities and contributions other than politicianship. But as every shop-stweard knows, it is the relativities which count.)

Trevor Morse's study traces the fate of Sir Michael Edwardes' unfulfillable promises towards their inevitable abandonment, which could not be concealed for ever, even though many failures were left to emerge after his departure. His early decision to keep the group together rather than begin selling it off piecemeal determined the rest of his strategy and its outcome to this day.

No hindsight is needed in order to point out that Sir Michael's basic premise that profitability was a precondition for privatisation put the cart before the horse and was bound to lead to failure. Privatisation remains a sine qua non for the ending of losses because so long as there is a crock of gold at the end of the garden the spur to sink or swim is blunted. Were there no losses, there would be no urgency. Privatisation does not lack other rationales, but all others put together do not have the urgency of the obviation of losses which fall on the economy as a whole, weakening its struggle for solvency and expansion of employment. Since privatisation must precede profitability, it cannot ex hypothesi wait until every loss-maker has been turned round, or even made saleable except with vacant possession. It follows that piecemeal privatisation is the only possible alternative to continued loss-making and erosion.

De facto nationalisation, epitomised by the government's unlimited liability for BL's debts, assured the labour force, management, suppliers - some inadequate by world standards - and their labour force, that nemesis would be staved off for ever by the bottomless purse of Johnny public. With such a guarantee, why should any wish to leave their protected haven for the cold world outside where anything might happen at any time? So a new class of dependents was born into one of the most competitive and international industries in the world.

He justified his decision on the grounds that to sell off the profitable parts would make it even harder to support the unprofitable. That this disingenious argument was even treated seriously, let alone accepted, comes as a reminder of how wise Lord Rothschild was to include a logician in the CPRS, and how much we are paying for the flight from logic and intellectual rigour rationalised by the cult of pragmatism.

In the first place, insofar as subsidies are ever justified at all, they are public money which should be given in the light of day to clearly defined recipients for clearly defined purposes, and subject to monitoring regarding both use and effects. For BL to be able to shuffle subsidies from one firm to another within the group, for all the world like a find-the-lady operator in a fairground, is an open invitation to extend the bafflement and concealment of which auditors general and ministers have complained in vain.

The whole financial and economic picture has been obscured by lumping together the thin cows and the fat, or at least the not-so-thin.

Secondly, insofar as some parts of BL were actually profitable, their profits should have been used to service their debt - or, if you will, pay dividends to the government - leaving the government to decide how to subsidise the loss-making parts of BL. Or, insofar as saleable portions were not actually profitable, but only potentially so in the eyes of prospective buyers, their sale would have turned liabilities into assets.

Thirdly, the argument for nationalising BL in the first place, and giving it another billion plus in 1981, was that BL was so large that its total collapse would send shock-waves throughout the whole economy. It surely follows that were BL cut down in size, by floating parts safely into the private sector, any shock-waves caused by eventual liquidation would have become commensurately smaller and more easily absorbed.

Fourthly, a reforming government, however determined, is hard put to wrestle with a monster the size of BL, which will use any means to hand in order to ensure its survival and continued access to government funds, and capable of mobilising uspport from a wide range of sources. The smaller the residual BL, the less powerful its army of auxiliaries and mercenaries would have become, with correspondingly less political strength and power of manipulation.

Fifthly, BL has acted as a procrustean bed. It has funded the uneconomic or strike-happy units more generously than they deserved - in any sense of the word - while keeping the dynamic firms capable of healthy expansion on short commons, causing them to miss opportunities.

Sixthly, common identity has tended by the nature of things to push up demands for wages and conditions to those offered by the better, irrespective of deserts.

Lastly, were units sold off for whatever price they would fetch - and their asset value is often far higher than the capitalised value of their performance - this would leave the irreducible core to be seen for what it was, and tackled accordingly. It is difficult to understand the rationale of spending vast sums of public money in attracting a Japanese firm to a green field site, while maintaining these industrial pensioners in their demoralisation to engage in subsidised competition on the home market.

But here the sociology of nationalisation is decisive. Though sections of the labour force and management in plants and enterprises were surplus to requirement, others would have survived break up and withdrawal of subsidy. But the main board and its headquarters staff would have been seen to be wholly superfluous. Hence they fought the hardest to maintain a monolithic "unscrambleable" company, and there is ample anecdotal evidence of how they used every subterfuge to circumvent government instructions to sell off parts of their empire, without which they would have lost their role.

This brings us back to the philosophical implications, not least the use and misuse of words. The word "employment" is now used in quite a different sense from the meaning it formerly carried, and which afforded its moral overtones. Economists from Smith to Keynes took it for granted that employment connoted the use of labour as a factor of production and its remuneration accordingly. The Keynesian multiplier effect rests on this assumption no less than theories it set out to modify or supersede. Keynesian theory, no less than any other, falls to the ground if employment comes to mean any situation where staff are paid irrespective of their contribution, and wages and salaries are divorced from value created, however measured.

The national accounts, of pure Keynesian origin, treat wages and salareis as factors of production, whereas they treat payments made irrespective of an actual labour input into a final product, as transfer payments. Is it logically sound to use the term employment for two such disparate phenomena as value-creation and value-destruction?

The most accurate description of this new industrial welfariat would be hidden unemployed. Hidden unemployment invariably wastes complementary resources in addition to the outdoor relief which raises its recipient far above welfare levels accorded to overt unemployed, and thereby removes any spur to finding real productive employment.

Inasmuch as BL's contribution to the balance of payments is still cited in debate, one has the duty to ask what every dollar, or other foreign currency unit saved, costs. The answer comes to approximately a third higher than its formal exchange value. In other words, even on the extreme assumption that all vehicles produced by BL would be imported and that all its exports lost, were it to close down completely - both highly questionable assumptions - then its export and import saving would still be prohibitively expensive, and constitute de facto devaluation.

I referred earlier to the fallacy of composition, which takes a single phenomenon in isolation from its secondary effects and from the likely effect of its repetition. This is relevant to the claim that nationalisation - by any name - creates employment. It would be truer to say that it generates unemployment.

First, it places a burden on the economy, whether by additional taxation or high monopoly prices. This additional burden prices otherwise viable firms out of competition at home and abroad. In a perceptive aphorism coined during the mid-seventies, Sir Keith Joseph called the victims of this process the "unknown unemployed", and suggested erecting a monument to them like that to the unknown soldier. In the mid-eighties they still have their monument: BL.

Secondly, nationalised work-simulation provides a level of wages and conditions well above what a commercially viable employer could hope to provide and still stay in business. This shapes the thinking not only of union negotiators but also of men out of work. Who can blame them if they decide that pay and conditions provided by BL, BSC, British Shipbuilders, NBC, etc are fair? How could they be otherwise, when the Government decides them? Who can cavil, then, at their chosing to wait for a job at fair wages rather than take something inferior from the hands of private exploiters who patently lack the social conscience worn so proudly on their sleeves by memorable chairmen like Ezra, Ryder, Finniston and Villiers. (Their memory will be kept green by the scale of their deficits, if by nothing else.)

In this context, the history of a forerunner to BL'isation, Ford's move to Halewood under pressure from the great compassioneer, are relevant. An unpublished doctoral thesis by an economic geographer in Liverpool University showed that Halewood's overall effect on employment in Merseyside had been negative. Only ten per cent of the labour force had been taken from the register, the other ninety per cent from existing jobs. In many cases, skilled men took up semi-skilled work at Halewood because wages for semi-skilled, based on rates in London and the West Midlands, were so much higher than for skilled men in Merseyside. This exodus undermined hitherto viable firms, and created something of a labour shortage amid unemployment. Concomitantly, the effect on wage-expectations and labour relations throughout the region was calamitous. The cost of compassion fell on hapless Merseysiders and Ford alike.

The effects of nationalised industries by any name on wage demands and labour relations in the residual wealth-creating sector haunt real employers who have to balance their books. The employers' organisations await every pay-round in BL and other work-simulation centres with trepidation. Every generous settlement means lay-offs in the private sector, eroding the economy's tax-base and resource-base, giving yet another turn to the spiral of closures or lay-offs, redundancy payments and higher taxes to meet additional unemployment pay, higher burdens, more unemployment.

Nationalisation by any name has not only economic but also political and institutional side-effects. One lame duck gives more employment to civil servants than a hundred healthy firms. It creates a whole web of vested interests: sustainers; monitors; suppliers; customers; unions; compliant academics; etc. As Russell Lewis of "The Mail" put it succinctly: "Socialism makes Socialists". It is easy to underestimate the difficulties which beset a reforming government committed to disengagement. Will alone is insufficient. Much depends on its ability to find the particular thread which must be pulled to loosen the tangle instead of tightening it still further. For decades, the structure of government, politics and institutions has evolved to further the ratchetlike progress of increased involvement. New techniques suitable for the equal and opposite process still need to be worked out.

Though economics may be depicted by supply and demand curves and econometric formulas if you wish, economics remains human activity by flesh and blood people. Machiavelli's dictum that every society and its institutions reflect the character of the people holds good for economic life. Social historians of the future, who may view our times more dispassionately, will doubtless make great play of a typology of nationalised industry chairmen, whose personal style can be decisive.

Sir Michael Edwardes will rank high in their interest-scale as a man whose consummate political and communications skills, which sometimes bordered on theatre, did not necessarily rebound to BL's interests or ours. I remember how vigorously he was applauded at the CBI conference in late 1980, when he blamed the high pound for his misfortunes and North Sea Oil for the high pound. "Let them keep it in the ground", he declared to an ovation. It is a sad comment on the level of sophistication of our captains of industry that not one stopped to consider that either the pound's strength may not have come from oil - as subsequently came to be accepted - or that a quarter of NSO revenues were being spent to prop up BL. What should we make of his argument now that BL's market share has continued to fall along with the pound? And what lessons have we drawn from the chapter?

I mention the scope for social historians. But it strikes me that to do the episode full justice, the skills of a novelist are also required to trace in fine detail the interplay between personality and circumstances, between the pressure of vested interests and the temporary suspension of disbelief by decision-makers and opinion-formers, of hard-pressed ministers and MP's no less hard pressed by their agent and chairman, of those with axes to grind and those whose political culture places higher value on discretion than on valour. Novels by Thackeray and Trollope come to mind, Arnold Bennet, and perhaps Kingsley Amis, too.

Circumstances may not necessarily create personality types - here social psychologists differ - but circumstances patently give differential play to various types, greater scope to some, restricting that enjoyed by others. In the age of over-mighty chairmen of these great tax-eating corporations, we should do well not to allow the colums of figures and consideration of abstractions like productivity, labour forces and managerial prerogative to drive the psychological and spiritual dimensions from our field of vision.

London, April 1985.

Section 1 Has BL Kept Its Promises?

On 26 January 1981 Sir Keith Joseph, then Secretary of State for Industry, told the Commons that in approving BL's 1981 Corporate Plan the Government was making available a further tranche of financial assistance beyond that previously agreed under the Ryder Plan. This would amount to over £1.1 billion from 1981/2 to 1984/5 and would take the form of additional Government equity.[1]

Sir Keith Joseph subsequently explained to the Commons Select Committee on Industry and Trade that the Government's remarkable decision had been taken "on the balance of argument", and that BL "had given sufficient evidence of improved performance to justify the extra money".[2]

This was not strictly accurate - in fact BL's losses had jumped in 1979 and 1980 and its share of the domestic car market had slumped below 20 per cent. Less than a year previously, in May 1980, the Commons debate on BL's 1980 Corporate Plan had been conducted on the assumption that only £130 million of further Government aid would be necessary until 1983/4.

In reality the decision to finance what was in effect a second rescue was taken to avoid the social and economic consequences of allowing BL to go to the wall. Sir Keith had argued privately that this should be allowed to happen, but was opposed by his departmental officials and overruled by Cabinet and then required to justify Cabinet's decision to the House and its Select Committee.

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(1) House of Commons Official Report, 26 January, 1981, col 639-646.

(2) Third Report from the Industry and Trade Committee, Session 1980-81, HC 294, Finance for BL, Q. 1,2.

The decision was also a personal triumph for Sir Michael Edwardes. It represented an endorsement of Edwardes' recovery strategy for BL, which had evolved since his appointment in 1977 and which took shape in his 1979 Recovery Plan.

As modified and developed during 1980 and 1981 this strategy had as its key elements:

- the introduction of a new, more compact and competitive model range.
- the rationalisation of production facilities, involving plant closures and substantial shedding of labour.
- major investment in re-tooling remaining plants.
- a vigorous programme of cost-cutting and productivity increases.
- the disposal of peripheral businesses and concentration on central vehicle manufacturing operations.
- the development of collaborative projects with other manufacturers to share development and production costs.
- a reorganisation of BL's business structure and the creation of more autonomous trading groups.
- a management shake-up at all levels and the encouragement of a more assertive management style.
- a more aggressive approach towards trade unions and the introduction of new working practices.
- defending BL's dealer network in the UK, in Europe and in the USA as a vital element in protecting BL's status as a volume car producer.

In evidence to the Industry and Trade Committee Sir Michael Edwardes made it clear that the bulk of the new funding approved in January 1981 would be invested in introducing the new model range.[1]

Edwardes saw three phases in BL's anticipated recovery - first, breaking even on trading; secondly, achieving a rate of return on capital such that BL could fund its future development, and, finally, making profits sufficient to offer dividends to shareholders.[2]

Profitability forecasts

Sir Keith Joseph had emphasised that "prospects of profits"[3] and of BL's ultimate viability had played a part in the Government's decision to make new money available. BL's 1981 Corporate Plan envisaged that BL would achieve a return to profitability after 1982 and would aim:-

> "to attain a return on assets (Profit before Interest and Tax) of not less than 15 per cent in a five to ten year period".[4]

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(1) HC 294, Q. 113.

(2) HC 294, Q. 129.

(3) HC 294, Q, 60.

(4) Paragraph 36.

Sir Michael Edwardes amplified his medium-term forecast in January 1982 and declared that the company ought to break-even at the trading level in 1983 and at the profit before tax level in 1984.[1] No more up to date statement of the BL Board's estimate of future financial performance has been made public, though more specific forecasts of future profitability have been supplied in evidence to the Industry and Trade Select Committee but excised from the published minutes.

As Table 3.2 on page 27 shows, BL did indeed achieve a small trading profit in 1983, and first half results for 1984 showed improvements over the corresponding period in 1984. But BL's trading position deteriorated again in the second half (see Section 3) and it now appears unlikely that BL can proceed into the second phase of its recovery as Sir Michael Edwardes had anticipated or on the timescale he had envisaged. Already by April 1983 some slippage was being assumed when BL's Finance Director told the Select Committee that it would be "towards the end of the decade" before BL would achieve the forecast 15 per cent rate of return overall.[2]

If BL has run aground in its efforts to meet its overall recovery targets, its initial forecasts of the future profitability of individual business groups have gone even further awry. Thus the 1981 Corporate Plan stated:-

> "Land Rover and Unipart are projected to remain profitable throughout the period.[3] BL Cars . . . is expected to make substantial losses in 1981 and 1982 but to become profitable within five years. The Leyland Group results show a loss in 1981 and a modest profit thereafter."[4]

(1) Third Report from the Industry and Trade Committee, Session 1981-82, HC 194, BL Limited, Q. 26.

(2) Industry and Trade Committee, Session 1982-83, HC 353-i, BL plc, Q. 30.

(3) ie. 1981-85.

(4) paragraph 44.

As the company accounts presented in Section 3 reveal, the performance of both Land Rover and Leyland Vehicles fell far short of these expectations. A discussion of BL's reluctance to publicly reveal any indicators of its success or failure in achieving annual financial or cost targets appears in the next section. Later sections discuss BL's recent production and sales performance and its productivity and industrial relations record since 1980.

It is important to distinguish, however, between an analysis of BL's recent performance according to the commercial and business objectives set out in its recovery strategy, and its success in achieving those political objectives which have arisen out of BL's relationship with government, and in particular from its dependence on financial assistance from the state.

An analysis of the relationship between BL and government is presented in the next section, but it can be argued that BL has been dilatory in pushing ahead with objectives agreed between the Board and the Department of Industry (and more recently the Department of Trade and Industry).

Privatisation

The issue which has aroused the most intense political discontent has been the speed with which BL has sought to attract private capital into its operations and, more fundamentally, the extent to which the Board has complied with government pressure to return BL to private ownership.

In announcing results for the first half of 1982 the Board declared its desire to "seek further private sector funds over the next two years within BL's mainstream business". On 5 October, 1982 the Industry Secretary, Patrick Jenkin, told the Conservative Party Conference that he expected "substantial movement" within two years and had come to an informal agreement on this with the new Chairman-elect, Sir Austin Bide.[1] BL's 1983 Corporate Plan repeated this commitment.

(1) Reported in the Financial Times, 6 October, 1982.

And yet in May 1984 the Group Chief Executive, Cars, Ray Horrocks, and BL's Director of Finance, F L Fitzpatrick, were put under intense pressure from the Trade and Industry Select Committee to explain BL's apparent lack of progress in honouring its earlier undertaking.[1] Unfortunately the sections of their evidence which outlined BL's future plans to rectify the situation were deleted from the published document. Mr Horrocks did, however, reiterate the pledge made by Sir Austin Bide to the same Committee in April 1983 that BL did:-

> "not want another penny piece from the taxpayer if we can possibly avoid it. The right way to get money for a viable business is through the market".[2]

By December 1984, however, Mr Horrocks was telling the Conservative backbench trade and industry committee that BL could attract commercial funds to meet its anticipated investment requirements, and that its balance sheet would attract such funds, but that to borrow at high interest rates from the market would put the company at a disadvantage with European competitors such as Renault and Fiat who were receiving loans from the state on preferential terms. He is reported as having argued that only further government funding or a restructuring of BL's balance sheet would allow the company to move towards early privatisation.[3]

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(1) Third Report from the Trade and Industry Committee, Session 1983-84, HC 490, BL plc, Q. 43 ff.

(2) HC 353-i, Q. 41; HC 490, Q. 84-86.

(3) Reported in the Financial Times, 29 December, 1984.

The BL Board has also fought a rearguard action against selling off any significant parts of BL despite intense pressure from ministers. Sir Michael Edwardes and his successors have successfully frustrated all attempts to break up BL and sell it piecemeal. On 4 December, 1980 at the height of the internal Government debate on BL's 1981 Corporate Plan, Edwardes had written to Sir Keith Joseph offering to accede to a request that he stay on as Chairman after his term had expired in March 1981 if future funding were guaranteed and if BL were not compelled to agree to "any premature outright sale of our major business".[1]

Although peripheral businesses have been sold (raising £120 million between 1980 and 1983) offers for major assembly plants have been rebuffed. Offers for the MG marque and Abingdon plant and for the Rover marque and Solihull factory were rejected - though in retrospect both bids were extremely low in cash terms relative to the benefits on subsequent sales of retaining the MG marque on top-of-the-range Metro, Maestro and Montego variants, of retaining the Rover marque on collaborative ventures with Honda, and the importance to Land Rover's restructuring programme of the Solihull plant.

But, whatever the broader commercial justification for rejecting these offers, BL has consistently refused to bring forward specific proposals or a timetable for selling Unipart or Land Rover. Both were considered prime candidates (with Jaguar) for sale before the 1983 General Election but Edwardes took the view that the more lucrative parts of BL ought to be used as "attractive bargaining counters in any future deal involving the loss making cars division".[2]

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(1) Sir Michael Edwardes, Back from the Brink: An Apocalyptic Experience, 1983, page 236.

(2) Reported in the Financial Times, 13 July, 1981.

Edwardes successor, Sir Austin Bide, also reiterated that his strategy did "not include suddenly divesting the company of its profitable parts".[1]

BL's 1983 Corporate Plan showed some response to increasing Government frustration and declared that:-

> "BL's objectives are to be able to borrow funds at normal commercial terms on its own covenant and to obtain the investment of private sector funds in some of its mainstream businesses over the next two years as the first step towards an eventual return to private ownership".[2]

The tacit relegation of privatisation to the status of a secondary objective was reversed just before the General Election of June 1983, when in a written answer the Government unequivocally set out its intended policy for BL:-

1 To return all the constituent businesses, either together or separately, to the private sector as soon as practicable. If the return of any constituent business carries the risk of reduced viability of the remainder, the issue should be put to the Secretary of State with options.

2 Consistent with 1, to dispose of peripheral activities so as to concentrate on vehicle manufacture and sales.

(1) Reported in the <u>Daily Telegraph</u>, January 1983.

(2) Paragraph 28.

3 To pursue in the corporate plan a specifically targeted programme of profitability improvement, within stated limits of public funding, so as to achieve a rate of return that would attract funds on normal commercial terms without government support.[1]

The Conservatives' election manifesto reiterated the commitment to return "substantial parts" of BL to the private sector. BL's 1984 Corporate Plan repeated the Government objectives laid out in May 1983 and announced the company's intention of floating Jaguar during 1984. This was carried out in July and raised £297 million, all of which was made available to the BL Board to fund further investment in line with the statement in the 1984 Corporate Plan that the privatisation of "parts of BL" would:-

> "strengthen the balance sheet and provide funds for carrying through the plans of the remaining businesses".[2]

It now appears that Unipart may be offered for sale later this year, but as yet there is no indication that any of the major vehicle manufacturing divisions are timetabled for early privatisation. Revised strategic objectives were published in February 1985, broadly along the lines of those issued in 1983, though stating that where the objective of returning "BL and its constituent businesses . . . to the private sector as soon as practical . . . cannot be achieved, the Board will review the future of that business".[3]

(1) House of Commons, Official Report, 11 May, 1983, col. 317 w.

(2) Paragraph 33.

(3) House of Commons, Official Report, 14 February, 1985, col. 232 w.

It has also been made clear recently that no more government funds are to be made available to BL[1], and despite Ray Horrocks' reported comments in December it seems that BL can expect an uncharitable response to its 1985 Corporate Plan by Ministers who feel that it is now time for BL to stand on its own two feet.

(1) House of Commons, Official Report, 9 January, 1985, col. 446 w.

Section 2 BL and Government

Since 1975 successive governments have provided almost two and a half billion pounds of taxpayers' money for BL, over half of this since 1980 from a Tory Government ideologically hostile to the public sector and opposed to subsidising lame duck corporations. Table 2.1 gives a breakdown of this expenditure.

Table 2.1

GOVERNMENT FINANCIAL YEAR		£ MILLION
1975/6	Purchase of shares from private shareholders	46
	New equity under British Leyland Act 1975	200
1976/7	Loans (converted to equity March 1980)	100
1977/8	Loans (converted to equity March 1980)	50
1978/9	Equity	450
1979/80	Equity	150
1980/1	Equity	300
1981/2	Equity	620
1982/3	Equity (£370 million approved)	270
1983/4	Equity carried forward from 1982/3	100
	New funding promised February 1983	100
	Equity for finance of BL's dealer stocks	25
		2,411[1]

Source: Stephen Wilks, Industrial Policy and the Motor Industry, 1984, page 231.

(1) BL waived its right to draw £110 million in return for being permitted to retain the proceeds from the sale of Jaguar. It is no longer available.

Expressed another way, since 1980 each BL employee has received an average state subsidy of between two and six thousand pounds per annum, as Table 2.2 shows.

Table 2.2

YEAR	GOVERNMENT EQUITY PAID TO BL	AVERAGE WEEKLY NUMBER OF UK EMPLOYEES	AVERAGE ASSISTANCE PER UK EMPLOYEE
1980	£300 million	154,820	£2,222.39
1981	£620 million	134,990	£5,962.17
1982	£260 million	84,475	£3,077.83
1983	£200 million	81,261	£2,461.21

Source: House of Commons, Official Report, 19 January, 1984, c295w, and author's update.

Between 1976 and 1981 responsibility for monitoring BL's activities, and the effectiveness with which these vast sums were spent, lay technically with the National Enterprise Board (though the Department of Industry had taken over de facto responsibility from December 1979). The 1980 Industry Act, however, provided for the state's shareholding to be transferred to the Secretary of State for Industry. This took effect on 31 March, 1981, and at the same time a Memorandum of Understanding was set out stating the nature of the future relationship between the BL Board and the Secretary of State. (1)

(1) Published in the Twentieth Report from the Committee of Public Accounts, Session 1981-82, HC 407, Leyland Vehicles Ltd, Bathgate: Disposal of Tractor Assembly Line, pages 8-9.

The Memorandum established that BL would be expected to behave as far as possible as an independent company, operating according to commercial criteria and seeking an acceptable return on capital employed. The Secretary of State would not interfere in day-to-day management decisions, but expected to be kept informed of the company's progress and of its future plans and financial requirements.

In addition to the terms of the Memorandum, any single capital expenditure item over £25 million has to have the approval of the Secretary of State. The Government has also confirmed that it will continue to honour an agreement made in 1977 (known as the Varley-Marshall assurances) under which British Leyland would not be "left in a position where it would not be able to meet its obligations." The Government has undertaken to:-

> "honour the intention behind those statements and will ensure that the obligations of the group are met". (1)

In effect this represents a guarantee to creditors that BL's debts will be met in full in the event of the company's liquidation, as well as security for commercial loans negotiated by BL.

As conceived in 1980 and 1981 the role of the Department of Industry was to combine the functions of "banker and shareholder on behalf of the taxpayer", (2) with the right to change BL's management or to cut off financial support but otherwise to leave the management free to manage.

(1) House of Commons, Official Report, 31 March, 1981, col. 80w.

(2) Sir Keith Joseph, evidence to the Industry and Trade Committee, 18 February, 1981, HC 294, Q. 34.

In relation to the Department's other role as overall sponsor, through its Motor Vehicles Division, of the vehicle industry, the Memorandum stated that the Secretary of State would, "deal with BL on the same basis as with any other vehicle manufacturer".

The relationship between BL and the Department of Industry (and later the Department of Trade and Industry) was anomalous from the outset. As all parties concerned were quick to point out, BL was not a nationalised industry but a Companies Act company operating in a cut-throat and competitive commercial market. Nevertheless, enormous sums of public money were invested in BL and it was only natural that full accountability should be sought for the way in which these were being spent.

The formal monitoring process, as it came to exist after the transfer of shares to the Secretary of State, has been conducted at three main levels:

1 The submission by the Board (usually in about October) of a Corporate Plan, for the Secretary of State's consideration. This comprises a review of strategic issues and objectives covering the following five years, including likely funding requirements and broad areas of expenditure.

2 The submission of more detailed annual financial summaries covering anticipated budgets and targets for the forthcoming year.

3 Monthly meetings between senior BL executives and departmental officials (usually up to ten, including accountants on secondment to the department, economists and Treasury officials) at which progress reports similar to those presented to the BL Board are reviewed. These include funds flow statements for each business group and internal management reports of progress on major investment projects.

The criteria which the department uses in its monitoring procedures were described in a memorandum submitted by the Comptroller and Auditor General to the Public Accounts Committee in March 1983.

These include:

(a) to be sufficiently informed of the financial and operational plans and of the performance of BL to advise ministers concerning policy, financial strategy and industrial objectives for the Company;

(b) monitoring BL's progress towards its financial objectives;

(c) ensuring that BL's Corporate Plans and budgets are sound and conform with the agreed objectives;

(d) ensuring that BL operates in accordance with agreed plans and takes prompt action if necessary to restore performance to plan;

(e) operating effective systems of financial control over public funds advanced to BL.[1]

In evidence to, and reports from, the Public Accounts Committee and the Trade and Industry Committee the department itself, the Comptroller and Auditor General, senior BL managers and members of the respective Committees have expressed themselves broadly satisfied with the relationship between BL and government as laid down in the Memorandum of Understanding and monitored by departmental officials. Nevertheless, there have been areas where doubt has arisen, and from these it can be argued that the relationship has been unsatisfactory from the point of view of Parliament as a whole and the taxpayer whose interests its Members represent.

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(1) Third Report from the Committee of Public Accounts, Session 1983-84, HC 103, Department of Industry: Supervision and Monitoring of British Leyland, page 2.

In a report published in 1982 the Comptroller and Auditor General was asked by the Public Accounts Committee to investigate the circumstances surrounding BL's disposal in 1981 of its Bathgate tractor plant. BL denied (as they were legally entitled to do) the Comptroller and Auditor General access to their own records, and the Department of Industry, while making available its own files, declined to make representations to the company on his behalf.

In its conclusions the Committee expressed its surprise,

> "that the Department of Industry did not appreciate the clear advantage for Parliament and indeed for the Government and the company"[1]

that would have been gained by making the records available and concluded,

> "that this case illustrates the difficulties which inevitably arise when the Comptroller and Auditor General is unable to carry out a direct examination of the handling by public corporations of substantial sums of public money and public assets, and to provide assurance directly to Parliament".[2]

(1) Twentieth Report from the Committee of Public Accounts, Session 1981-82, HC 407, page xii.

(2) ibid. page xiii.

Subsequently the Comptroller and Auditor General made a further examination of the relationship between BL and the Department of Industry and expressed a number of reservations to which he drew the attention of the Public Accounts Committee. These included the fact that in February 1982 the Secretary of State had set BL a short-term financial target for that year,

> "which did not establish the date by which public funding of the company should cease, and included no target return on capital to take the place of the target return on its investment in BL previously set out for the NEB".[1]

On a similar point he noted that although the Department of Industry had examined BL's criteria for investment appraisal,

> "it had not established a minimum rate of return to be achieved by new investment either individually or as a whole, and arrangements for back checks on returns actually achieved from past investments were not comprehensive".[2]

(1) HC 103, pages 4-5.

(2) ibid. page 5.

The Comptroller and Auditor General also noted that the department does not require BL to publish performance indicators in its annual report and accounts, though he accepted that some indicators were published in BL's annual performance review presented to Parliament, and that the department and BL discussed more comprehensive indicators during regular monitoring meetings. In oral evidence the Permanent Secretary merely said that publishing more indicators "is a matter to which I should be happy to give consideration and discuss with the company".(1) That was in March 1983. Two years later it is no easier for Parliament or the taxpayer to assess BL's success in achieving its annual financial targets or cost-cutting objectives.

Thus where BL supplies forecasts or indicators to the department, these are regarded as commercially sensitive and are not disclosed. The published version of BL's annual review and Corporate Plan reveals little beyond anodyne generalities.

BL's annual report and accounts give almost no indication as to the relative performance of the company's trading groups or their underlying profitability. They give no information on their asset structure, utilisation of funds or inherent viability as a guide to potential investors or buyers. Audited accounts are now available at Companies House for Austin Rover, Unipart and Land Rover from 1982 onwards, and for Leyland Vehicles for earlier years, but these have not previously been published. Those now available are reproduced in Section 3.

(1) Ibid. page 11.

Not all the blame for the defects in the relationship can be attached to BL, however. The Memorandum of Understanding is a masterpiece of vagueness and the Public Accounts Committee has twice urged its partial re-drafting. Although the Government has a clear policy of privatising parts of BL as soon as possible, no clear timetable appears to have been laid down, and neither does there appear to be any machinery within the monitoring process for compelling the Board to frame one and adhere to it. It is surprising that a clear framework was not attached as a sine qua non to the approval of the 1981 Corporate Plan, or subsequent Plans, in view of the known frustration caused amongst ministers and Tory backbenchers by the Board's apparent prevarication.

It is also surprising that no timetable has been urged on BL for making a decision on the long-term viability of individual parts of its business. The 1982 Corporate Plan stated the company's intention of,

> "turning round or discontinuing those parts of the business which are now unprofitable",(1)

in order to achieve its financial objectives.

In the Report of the Directors' attached to BL's 1983 report and accounts the Board promised,

> "to monitor the progress of the company's constituent businesses",

and if it,

> "appears impossible to bring about recovery within the time scale envisaged the Board will reconsider the future of relevant businesses".(2)

(1) Paragraph 36.

(2) Page 8.

In evidence to the Industry and Trade Committee in April 1983 Sir Austin Bide would not concede that at that time parts of the business were "irrecoverable" and "by some definition non-viable", though he could not guarantee to,

> "turn absolutely everything into a state of viability".(1)

It is worth remarking that apparent disagreements between government and BL's management over the speed at which BL can realistically be returned to private ownership reflect genuinely opposing interpretations of how best to turn around the whole of the business. Sir Michael Edwardes, in resisting pressure to sell off Unipart and Land Rover in 1981 and 1982, took the view that to do so "will impact very unfavourably on our cash flow and we will need more funds from somewhere".(2) Uppermost in the Board's considerations was the fear that to sell the profitable parts of BL prematurely would leave an unprofitable rump doomed to closure.

Ministers and their backbench supporters have taken the opposite line - that to sell profitable operations would provide a cash injection offering remaing parts of the business every prospect of viability , as well as reducing the company's borrowings and releasing the taxpayer from the threat of further calls for subsidy.

The apparent inability of the Conservative Government to impose its political will over privatisation in part reflects the anomalous relationship between BL and the Department of Industry, particularly the lack of machinery for making the Government's political aims a reality. However, it also derives from the wider political issues at stake and the way in which these have at times come to circumvent the monitoring procedures designed to keep BL on course.

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(1) HC 353-i, Q. 45, 46.

(2) HC 194, Q. 63.

At the end of 1980 and the beginning of 1981 Ministers had no contingency plans for BL, and when it came to deciding the company's fate only two options were available - the sanctioning of further massive subsidies or allowing BL to go down, with the social and economic repercussions which would have resulted.

This was a situation which Sir Michael Edwardes had skilfully engineered. Already by 1981 political decisions about BL had come to be influenced by factors outside the formal monitoring machinery.

As Stephen Wilks has pointed out a network of contacts between BL and the Industry Department already existed at an informal level, allowing set monitoring procedures to be by-passed.(1) From August 1979 onwards a Department of Industry principal was seconded to act as Sir Michael Edwardes' personal assistant. Edwardes described in his memoirs how this became a highly expedient arrangement whereby,

> "information could be exchanged or draft letters cleared informally without establishing precedents or commitments".(2)

Such procedures became especially valuable when relations between BL and the Industry Secretary, Patrick Jenkin, became strained during 1981 and 1982.

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(1) Stephen Wilks, Industrial Policy and the Motor Industry, 1984, page 227.

(2) Back from the Brink, page 218.

The department's capacity to adequately monitor BL's activities and take appropriate decisions on its annual Corporate Plan was further compromised by the way in which the relationship between BL and government came to be conducted through channels outside the Industry Department's control. Edwardes' charismatic and volatile personality made him a favourite of the media, and he used his appeal to project both himself and BL on to the national political stage. BL's Public Affairs department was expanded and the effect of the company's high media profile was to make it, according to Wilks "at the political level a difficult creature to manipulate".(1)

Partly for this reason, and also because the Prime Minister and senior Cabinet colleagues held such strong views on the fortunes of the company, almost every major decision on BL came to be taken in No. 10. Thus, issues such as approval of BL's Corporate Plan, and wider considerations on the survival or otherwise of the company were taken out of the department's hands and became elevated to the status of traumatic political events, a phenomenon encouraged by Edwardes.

Wilks argues that the Corporate Plan became, in Edwardes' hands,

> "virtually non-negotiable. Edwardes maintained that he required unequivocal backing and the Department of Industry had neither the resources nor the inclination to attempt to rewrite the plan. It was take it or leave it - support the plan or liquidate the company".(2)

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(1) op. cit. page 225.

(2) ibid. page 226.

Wilks draws the conclusion that the structure of the relationship between BL and the Department of Industry, and the way in which approval of the Corporate Plan was sought, came to resemble an "annual planning cycle" analagous to the planning agreements drawn up between the last Labour administration and Chrysler UK.(1)

By carefully calculated brinkmanship Edwardes would play off Government and workforce against each other, submitting the Corporate Plan at the same time as the company's annual pay round negotitations and the Treasury's review of the following year's public spending. This became, according to Wilks,

> "a dangerously unpredictable process in which BL was marketing itself on two fronts - selling its cars to the public and its plans to the government".(2)

Thus, during the Edwardes era not only was the monitoring process defective in that it did not ensure an effective balance between commercial and political considerations and included no machinery for keeping BL on course, but it was in any case being out-flanked by other actions and procedures outside the department's control.

Edwardes' successors have employed less overt political leverage on government in seeking approval for BL's annual corporate plans, but by more subtle methods have managed to frustrate efforts by ministers to force the pace on privatisation.

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(1) ibid. page 228.

(2) ibid. page 229.

Section 3 BL Performance 1981-84: Financial Information

This section provides the fullest available information on the recent financial performance of BL plc and its principal trading groups. Comparison of results for Austin Rover, Unipart and Land Rover UK for 1982 and 1983 with earlier years is difficult in view of a reorganisation of BL's trading groups effective from January 1982. Details of changes are given in each relevant section, but broadly BL is now divided into two distinct trading groups:-

Cars Group, which includes Austin Rover Group, BL Technology and Unipart Group;

and Land Rover-Leyland Group, which includes Leyland Vehicles, Land Rover UK and Land Rover-Leyland International Holdings.

As mentioned in Section 1, BL had set itself the target of breaking even on trading in 1983 and at the profit before tax level in 1984, with the longer term objective of achieving a rate of return on assets of at least 15 per cent on profit before interest and tax within five to ten years from 1981.

BL did indeed achieve a small trading profit in 1983 but interim results for 1984 show pre-tax losses of £11.7 million (see Table 3.1). However, a change in depreciation policy reduced provision by £29 million and Jaguar contributed profits of nearly £53 million. Without Jaguar and under the old depreciatiion convention BL would have returned pre-tax losses of around £93 million.(1)

(1) Derived from BL's Interim Results, 1984.

It is as yet too early to assess the likely impact on BL's long term financial position of the sale of Jaguar. Last year the Trade and Industry Committee expressed concern that:-

> "the amputation of the most healthy part of the company is bound to make it harder for the rest of BL to achieve viability in the next few years".(1)

In evidence senior BL executives had been more optimistic and pointed out that the sale would not only produce a cash injection but would reduce overall borrowings and interest charges.

It is current Board policy that BL plc should be considered as a holding company and that all business units must ultimately be viable in their own right.

(1) HC 490, p v.

Table 3.1 - BL PLC

Interim Statement of Results for the year to 31 December 1984

	1984
	£ million
TURNOVER	
UK	1,987
Overseas	1,415
	3,402
Of which direct exports from UK	827
OPERATING LOSS	11.7
Interest payable less interest receivable	61.6
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	73.3
Taxation on ordinary activities	7.7
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	81.0
Minority share of profits of subsidiaries	1.8
LOSS BEFORE EXTRAORDINARY ITEMS	82.8
Extraordinary profit	163.4
PROFIT AFTER EXTRAORDINARY ITEMS	80.6[1]

1 This profit figure takes into account net proceeds of £186.1 million from the sale of Jaguar.

Table 3.2 - BL PLC

Consolidated Profit and Loss Account for the years ended 31 December 1981, 1982 & 1983

	1983	1982	1981
	£ million	£ million	£ million
TURNOVER	3,420.7	3,071.9	2,868.7
OPERATING PROFIT (1981, 1982 loss)	4.1	125.8	244.6
Interest payable less interest receivable	71.2	96.9	88.3
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	67.1	222.7	339.2
Taxation on ordinary activities	7.2	6.8	5.8
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	74.3	229.5	339.2
Minority share of profits of subsidiaries	3.8	4.6	5.8
LOSS BEFORE EXTRAORDINARY ITEMS	78.1	234.1	345.0
Extraordinary losses	73.4	58.8	152.0
LOSS AFTER EXTRAORDINARY ITEMS	151.5	292.9	497.0
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	1,543.7	1,250.8	753.8
LOSS AFTER EXTRAORDINARY ITEMS	151.5	292.9	497.0
ACCUMULATED DEFICIT AT END OF YEAR	1,695.2	1,543.7	1,250.8
Weekly average number of employees	103,216	107,763	126,267
Of which UK employees	81,261	84,475	103,989

SOURCE: BL Annual Report & Accounts

Table 3.3 - BL PLC

Consolidated Balance Sheet as at 31 December 1982 & 1983

	1983	1982
	£ million	£ million
FIXED ASSETS		
Tangible Assets	1,006.8	957.5
Investments - in related companies'	7.8	7.1
	1,014.6	964.6
CURRENT ASSETS		
Stocks	813.8	864.3
Debtors	392.1	432.0
Investments - short term deposits	246.2	5.5
Cash at bank and in hand	38.1	38.8
	1,490.2	1,340.6
CREDITORS - amounts falling due within one year		
Short term borrowings	(314.8)	(252.7)
Other	(717.8)	(776.0)
NET CURRENT ASSETS	457.6	311.9
TOTAL ASSETS LESS CURRENT LIABILITIES	1,472.2	1,276.5
CREDITORS - amounts falling due after more than one year	(651.6)	(561.4)
PROVISIONS FOR LIABILITIES AND CHARGES	(102.3)	(43.3)
	718.3	671.8
CAPITAL AND RESERVES		
Called up share capital	2,139.5	1,958.1
Share premium account	113.3	96.7
Other reserves	118.7	118.7
Profit and loss account	(1,695.2)	(1,543.7)
	676.3	629.8
MINORITY INTERESTS IN SUBSIDIARIES	42.0	42.0
	718.3	671.8

NOTE: 1981 information is not supplied as the basis on which the balance sheet is presented was changed in the 1983 accounts.

SOURCE: BL Annual Report and Accounts

Table 3.4 - BL PLC

Consolidated Source and Application of Funds for years ended 31 December 1983, 1982 & 1981

	1983	1982	1981
	£ million	£ million	£ million
ILIZATION OF FUNDS			
t operational inflow/(outflow)	37.4	(133.7)	(350.9)
ss on ordinary activities before taxation	(67.1)	(222.7)	(332.9)
traordinary losses	(73.4)	(58.8)	(152.0)
epreciation and amortisation	177.9	147.8	134.0
ecrease in working capital	99.7	18.4	124.5
tocks less deposits - decrease	50.5	6.7	75.0
ebtors and bills receivable - decrease/(increase)	39.9	(91.0)	92.6
reditors and provisions - increase	9.3	102.7	(43.1)
apital Expenditure	(247.7)	(229.9)	(200.8)
axation	(7.2)	(5.7)	(3.2)
ther - principally disposal of fixed assets	16.0	10.1	48.3
	(101.8)	(340.8)	(382.1)
INANCED BY:			
et proceeds of share issues	198.0	257.4	514.7
ncrease in			
Loan capital and term loans	48.0	207.3	(15.7)
Finance leasing liabilities - long term	37.2	42.3	17.2
Decrease in			
Bills payable to banks - long term (1982 increase)	(3.5)	4.7	(1.2)
Net short term borrowings	(177.9)	(170.9)	(132.9)
	101.8	340.8	382.1

SOURCE: BL Annual Report and Accounts

Austin Rover Group Ltd

Austin Rover has traded since January 1982. It was formerly part of BL cars which also included Land Rover, Jaguar and Unipart.

The company made a small trading profit in 1983, and a small profit of around £300,000 in the first half of 1984. However, sales slipped badly in the second half and Austin Rover ended with a trading loss of £26 million for the year[1] on a turnover of £1.81 billion[2], only marginally up on 1983's £1.8 billion.

The accounts show some tightening up of working capital management, and the balance sheet looks good with its strong equity gearing ratio.

There are some snags, however. Table 3.6 shows that the company is backed by a £1.2 billion interest free loan from BL plc, callable at one month's notice. If this was a commercial loan Austin Rover would have paid perhaps around £120 million interest in 1983, its total interest charge would have been nearer £140 million and pre-tax losses would have been over £130 million.

(1) BL Interim Results, 1984.

(2) Reported in the Financial Times, 12 January, 1985.

Table 3.5 - Austin Rover Group Ltd

Consolidated Profit and Loss Account for years ended 31 December 1982 and 1983

	1983	1982
	£ million	£ million
TURNOVER	1,799.4	1,582.3
OPERATING PROFIT (1982 loss)	2.7	105.9
Interest payable less interest receivable	19.0	28.3
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	16.3	134.2
Taxation recovered (1982 charge)	8.9	0.2
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	7.4	134.4
Minority share of profits of subsidiaries	1.7	2.2
LOSS BEFORE EXTRAORDINARY ITEMS	9.1	136.6
Extraordinary losses	0.7	37.8
LOSS AFTER EXTRAORDINARY ITEMS	9.8	174.4
ACCUMULATED DEFICIT BROUGHT FORWARD	926.2	751.8
LOSS AFTER EXTRAORDINARY ITEMS	9.8	174.4
ACCUMULATED DEFICIT AT END OF YEAR	936.0	926.2
Weekly average number of employees	41,136	43,717

SOURCE: Company Accounts

Table 3.6 - Austin Rover Group Ltd

Consolidated Balance Sheet as at 31 December 1983 & 1982

	1983	1982
	£ million	£ million
FIXED ASSETS		
Tangible Assets	434.4	404.4
Investments - in related companies	0.9	0.9
	435.3	405.3
CURRENT ASSETS		
Stocks	322.6	328.0
Debtors	284.4	488.6
Cash at bank and in hand	48.5	22.2
	655.5	838.8
CREDITORS - amounts falling due within one year		
Short term borrowings	(134.8)	(103.5)
Other	(518.7)	(810.9)
NET CURRENT ASSETS	2.0	(75.6)
TOTAL ASSETS LESS CURRENT LIABILITIES	437.3	329.7
CREDITORS - amounts falling due after more than one year		
Finance leasing liabilities	74.0	56.3
Bank and other loans	6.6	8.1
PROVISION FOR LIABILITIES AND CHARGES	17.5	33.8
	98.1	98.2
CAPITAL AND RESERVES		
Called up share capital	58.0	58.0
Share premium account	2.3	2.3
Profit and loss account	(936.0)	(926.2)
	(875.7)	(865.9)
HOLDING COMPANY LOANS	1,196.2	1,079.0
MINORITY INTERESTS IN SUBSIDIARIES	18.7	18.4
	437.3	329.7

SOURCE: Company Accounts

Table 3.7 - Austin Rover Group Ltd

Consolidated Source and Application of Funds for years ended 31 December 1983 & 1982

	1983	1982
	£ million	£ million
UTILIZATION OF FUNDS		
Net operational inflow/(outflow)	70.0	(103.0)
Loss on ordinary activities before taxation	(16.3)	(135.6)
Extraordinary losses	(0.7)	(39.5)
Depreciation and amortisation	87.0	72.1
Increase in working capital	(98.9)	(153.1)
Stock less deposits - decrease	5.4	181.8
Debtors decrease/(increase)	204.2	39.5
Creditors and provisions - (decrease)	(308.5)	(52.0)
Subsidiaries/fellow subsidiaries - (increase)		(322.4)
Capital Expenditure	(127.7)	(119.4)
Taxation recovered	8.9	
Other - including fixed asset disposals	9.3	175.0
	(138.4)	(200.5)
FINANCED BY:		
Holding company loans	117.2	243.8
Finance leasing liabilities - long term	17.7	11.0
Bank and other long term loans	(1.5)	(0.5)
Cash bank and other short term deposits	(26.3)	
Net short term borrowings	31.3	(53.8)
	138.4	200.5

SOURCE: Company Accounts

Unipart Group Ltd

Separate accounts for Unipart are only available from 1982 onwards.

As already mentioned in Section 1, Unipart has been viewed for several years as a prime candidate for early privatisation. A value of £100-150 million has been put on the company, and the enclosed accounts show this not to be unreasonable, though perhaps £100-135 million might be closer to the mark.

The accounts reflect John Neill's strong management and show an efficient use of working capital, though the static turnover is a little worrying, and Unipart's operating profit fell to £14 million in 1984 - though changes in contractural arrangements with other BL companies affected profit margins. Unipart's operations were also realigned in 1984 to concentrate activity more closely on its mainstream business.[1]

Unipart has recently looked to strengthen its balance sheet by acquiring other companies in the components industry, and in August 1984 it paid £15 million for Edmunds Walker Holdings. It is likely that this acquisition will further strengthen the company's operations and increase its market value.

It now seems that Unipart will be offered for sale later this year, though as yet no information on timing or method of disposal has been made public.

(1) BL Interim Results, 1984.

Table 3.8 - Unipart Group Limited

Consolidated Profit and Loss Account for the years ended 31 December 1982 & 1983

	1983	1982
	£ thousand	£ thousand
TURNOVER	346,052	341,959
OPERATING PROFIT	17,410	13,623
Interest payable less interest receivable	349	5,200
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	17,061	8,423
Taxation on profit on ordinary activities	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17,061	8,423
Extraordinary items	-	6,908
PROFIT FOR THE FINANCIAL YEAR	17,061	1,515
RETAINED PROFITS		
Parent Company	17,061	1,515
Subsidiary Company	-	-
	17,061	1,515
STATEMENT OF RETAINED PROFITS/RESERVES		
Accumulated reserves at beginning of year	1,505	(10)
Retained profit for the year	17,061	1,515
ACCUMULATED RESERVES AT END OF YEAR	18,566	1,505
Weekly average number of employees	4,737	5,514

SOURCE: Company Accounts

Table 3.9 - Unipart Group Limited

Consolidated Balance Sheet as at 31 December 1982 & 1983

	1983	1982
	£ thousand	£ thousand
FIXED ASSETS		
Tangible assets	32,757	30,902
	32,757	30,902
CURRENT ASSETS		
Stocks	96,322	84,020
Debtors	84,085	119,028
Cash at bank and in hand	6,952	10,287
	187,359	213,335
CREDITORS - amounts falling due within one year	(198,706)	(240,822)
NET CURRENT LIABILITIES	(11,347)	(27,487)
TOTAL ASSETS LESS CURRENT LIABILITIES	21,410	3,415
CREDITORS - amounts falling due after more than one year	(2,353)	(1,411)
ACCRUALS AND DEFERRED INCOME	(481)	(489)
	18,576	1,515
CAPITAL AND RESERVES		
Called up share capital	10	10
Reserves	18,566	1,505
	18,576	1,515

SOURCE: Company Accounts

Table 3.10 - Unipart Group Limited

Consolidated Source and Application of Funds for the years ended 31 December 1982 & 1983

	1983	1982
	£ thousand	£ thousand
UTILIZATION OF FUNDS		
Net operational flow		
Profit on ordinary activities before taxation	17,061	8,423
Extraordinary losses	-	(6,908)
Depreciation	6,648	5,811
Development grant credit	(182)	(145)
	23,527	7,181
(Increase) in working capital		
Stocks - (increase)	(12,302)	(84,020)
Debtors and bills receivable - decrease/(increase)	603	(47,279)
Group Company Indebtedness - (decrease)/increase	(21,396)	7,033
Short term creditors - increase	12,352	36,057
	(20,743)	(88,209)
Capital Expenditure Net	(8,503)	(36,713)
Development grants received, less repaid	174	634
	(5,545)	(117,107)
FINANCED BY:-		
Parent company loan	4,900	110,000
Finance leasing liabilities - long term	942	1,411
Net short term borrowings	(297)	5,696
	5,545	117,107

NOTE:
Unipart Group Limited and its subsidiary commenced trading on 1 January 1982 and thus the consolidated source and application of funds for the year ended 31 December 1982 includes the acquisition of their assets at 1 January 1982.

SOURCE: Company Accounts

Land Rover UK Ltd

Land Rover UK Ltd began trading on 1 January, 1982, when the assets and liabilities of Land Rover and Freight Rover were transferred from BL Cars to Land Rover Group, a holding company for Land Rover UK Ltd.

Land Rover UK has three wholly-owned subsidiaries - Land Rover, Freight Rover and Land Rover Parts and Equipment. Separate accounts are not available, but it is known that Freight Rover traded profitably in 1983 for the first time in several years[(1)] and improved its performance in 1984.

Land Rover has also moved into profit in 1984 and overall Land Rover UK made a small operating profit of £2 million before tax and interest.[(2)] The continuing decline in Land Rover's export markets leaves a question mark over the division's future profitability. A major restructuring programme is currently in progress and is not due to be completed until 1986, and this makes any estimate of Land Rover's potential profitability highly speculative at present, though as the analysis in the next section explains, there may be some cause for optimism.

(1) Land Rover UK company accounts, 1983, Report of the Directors.

(2) BL Interim Results, 1984.

Table 3.11 - Land Rover UK Ltd

Profit and Loss Account for the years ended 31 December 1983 & 1982

	1983 £ million	1982 £ million
TURNOVER	371.8	419.3
OPERATING LOSS	14.5	1.8
Investment income receivable	-	(0.2)
Interest payable less interest receivable	5.4	3.8
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	19.9	5.4
Tax on profit on ordinary activities	0.1	0.2
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	20.0	5.6
Extraordinary items less taxation	24.4	3.2
LOSS AFTER EXTRAORDINARY ITEMS	44.4	8.8
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	8.8	-
Loss after extraordinary items	44.4	8.8
ACCUMULATED DEFICIT AT END OF YEAR	53.2	8.8
Weekly average number of employees	11,026	12,043

SOURCE: Company Accounts

Table 3.12 - Land Rover UK Ltd

Balance Sheet as at 31 December 1983 & 1982

	1983		1982	
	£ million	£ million	£ million	£ million
FIXED ASSETS				
Tangible assets	136.5		147.4	
Investments	-	136.5	-	147.4
CURRENT ASSETS				
Stocks	87.3		71.1	
Debtors	75.9		351.2	
Cash at bank and in hand	4.9	168.1	0.1	422.4
CREDITORS - amounts falling due within one year		(161.6)		(403.8)
NET CURRENT ASSETS		6.5		18.6
TOTAL ASSETS LESS CURRENT LIABILITIES		143.0		166.0
CREDITORS - amounts falling due after one year				
Interest free loan from Land Rover-Leyland Ltd	145.0		145.0	
Other creditors	27.0	172.0	28.9	173.9
PROVISION FOR LIABILITIES AND CHARGES		24.2		0.9
CAPITAL AND RESERVES				
Called up share capital	-		-	
Profit and loss account	(53.2)	(53.2)	(8.8)	(8.8)
		143.0		166.0

SOURCE: Company Accounts

Table 3.13 - Land Rover UK Ltd

Source and Application of Funds for the years ended 31 December 1982 & 1983

	1983	1982
	£ million	£ million
UTILIZATION OF FUNDS		
Net operational (outflow)/inflow	(14.7)	13.4
Loss on ordinary activities before taxation	(19.9)	(5.4)
Extraordinary items	(24.4)	(3.2)
Depreciation and amortisation	29.6	22.0
Decrease in working capital	45.1	103.6
Stocks - (increase)	(16.2)	(71.1)
Debtors - decrease/(increase)	275.3	(351.2)
Creditors and provisions - (decrease)/increase	(214.0)	525.9
Capital Expenditure	(21.8)	(173.8)
Transfers at 1 January 1982	-	(134.0)
Other additions	(21.8)	(39.8)
Taxation	(0.1)	(0.2)
Other - disposals of fixed assets and provisions on closures	3.1	4.4
	11.6	(52.6)
FINANCED BY:-		
Finance leasing liabilities - long term - (decrease)/increase	(2.0)	28.6
Net short term borrowings - (decrease)/increase	(9.6)	24.0
	(11.6)	52.6

SOURCE: Company Accounts

Leyland Vehicles Ltd

Leyland Vehicles incorporates Leyland Trucks, Leyland Bus and Leyland Parts. It traded as a separately audited business group before 1982 and therefore accounts for 1981 are provided. Accounts for the three constituent groups are not available, but Leyland Parts has traded profitably for some years and the bus division returned to trading profit in 1983[1], though it suffered a "sharp decline" in 1984 according to BL's interim results.

Leyland Vehicles cut its losses in 1984 to £61 million from £70 million in 1983, but the accounts for 1981 to 1983 show that the company appears irrecoverable in strictly commercial terms. Its trading losses exceed provision for depreciation and amortisation, liabilities exceed assets and the company is in general unable to support its basic trading activities.

In May 1984 David Andrews, Group Chief Executive, Land Rover-Leyland, estimated that on the truck business it would be:-

> "two or three years before we can be optimistic and say we can get back into profit".[2]

More recently it has been reported that the company does not expect to become profitable until 1988.[3] Leyland Trucks reduced its losses significantly in 1984 according to BL's interim results.

As the next section discusses there is no prospect of a miraculous recovery in either the UK truck market or Leyland's traditional export markets and the prospects for the division's future profitability look exceptionally bleak, despite further rationalisation measures announced in May 1984.

(1) Company accounts, 1983, Report of the Directors.

(2) HC 490, Q. 121.

(3) Management Today, December 1984, page 66.

Table 3.14 - Leyland Vehicles Ltd

Consolidated Profit and Loss Account for the years ended 31 December 1983, 1982 & 1981

	1983 £ million	1982 £ million	1981 £ million
TURNOVER	433.5	420.8	428.8
OPERATING LOSS	69.6	58.9	80.5
Interest payable less interest receivable	28.5	15.2	10.3
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	98.1	74.1	90.8
Taxation on ordinary activities	-	0.1	0.2
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	98.1	74.2	91.0
Extraordinary losses	45.5	0.3	34.5
LOSS AFTER EXTRAORDINARY ITEMS	143.6	74.5	125.5
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	300.1	225.6	100.1
Loss after extraordinary items	143.6	74.5	125.5
Pre acquisition reserves acquired during the year	(1.0)	-	-
ACCUMULATED DEFICIT AT END OF YEAR	442.7	300.1	225.6
Weekly average number of employees	15,821	17,632	18,973

SOURCE: Company Accounts

Table 3.15 - Leyland Vehicles Ltd

Consolidated Balance Sheet as at 31 December 1982 & 1983

	1983 £ million	1982 £ million
FIXED ASSETS		
Tangible assets	156.5	156.9
CURRENT ASSETS		
Stocks	154.4	168.7
Debtors	68.1	102.3
Cash at bank and in hand	1.3	2.1
	223.8	273.1
CREDITORS - amounts falling due within one year		
Short term borrowings	10.2	12.3
Other	378.6	327.2
NET CURRENT LIABILITIES	(165.0)	(66.4)
TOTAL ASSETS LESS CURRENT LIABILITIES	(8.5)	90.5
CREDITORS - amounts falling due after more than one year		
Interest free loans from group companies	308.0	300.0
Other creditors	15.1	15.5
PROVISIONS FOR LIABILITIES AND CHARGES	46.7	10.7
CAPITAL AND RESERVES	(378.3)	(235.7)
Called up share capital	64.4	64.4
Profit and loss account	(442.7)	(300.1)
	(8.5)	90.5

NOTE:

1981 information is not supplies as the basis on which the balance sheet is presented was changed in the 1983 accounts.

SOURCE: Company Accounts.

Table 3.16 - Leyland Vehicles Ltd

Consolidated Source and Application of Funds for the years ended 31 December 1981, 1982 & 1983

	1983 £ million	1982 £ million	1981 £ million
UTILIZATION OF FUNDS			
Net operational outflow	(116.1)	(46.5)	(99.5)
Loss on ordinary activities before taxation	(98.1)	(74.1)	(90.8)
Extraordinary losses	(45.5)	(0.3)	(34.5)
Depreciation and amortisation	27.5	27.9	25.8
Decrease/(increase) in working capital	74.2	(24.8)	76.7
Stocks - decrease/(increase)	14.3	(6.8)	36.8
Debtors & bills receivable - decrease/(increase)	31.1	(15.6)	24.2
Creditors and provisions - (decrease)/increase	22.3	(8.6)	15.7
Subsidiaries/fellow subsidiaries - decrease	6.5	6.2	-
Capital Expenditure	(30.4)	(29.5)	(18.3)
Taxation	-	(0.1)	(0.2)
Trade investment	-	3.8	1.9
Other - principally disposals of fixed assets	4.3	3.2	3.9
	(68.0)	(93.9)	(35.5)
FINANCED BY:-			
Group Companies	69.4	108.4	13.2
Loan capital and term loans	(0.1)	(2.6)	5.0
Finance leasing liabilities - long term	-	0.2	5.6
Net short term borrowings	(1.3)	(12.1)	11.7
	68.0	93.9	35.5

SOURCE: Company Accounts

Section 4 BL Performance 1980-84: Production and Sales

CARS

Production

Since 1980 BL Cars and its successor Austin Rover have introduced an entirely new product range. Metro was launched in October 1980 and is due to be re-skinned next year. The Triumph Acclaim, a re-engineered Honda Ballade produced under licence as a market stop-gap, was introduced in October 1981 and discontinued in mid 1984. Maestro appeared in March 1983, Montego in April 1984, and the Rover 200 series (again substantially a Honda derivative) in June 1984. The range is due to be completed by the introduction, sometime in 1986, of a new executive Rover, currently code-named XX and representing the first fruits of genuine design collaboration with Honda.

Integral to BL's efforts to generate its 'product-led' recovery has been the concentration of volume production at Longbridge and Cowley. Both plants have been completely re-tooled at a cost of over £500 million with the installation of advanced manufacturing systems and industrial robots, placing the two factories at the forefront of car manufacturing technology. Austin Rover has spent £147 million on re-tooling Cowley to produce Maestro and Montego, including £31 million on robots alone. Austin Rover planned to have installed 116 robots at Cowley, including 92 in the body plant, by the time Montego was in production last year.[(1)] A further £21 million has been spent in re-equipping the Swindon body plant, linking its production, design and testing facilities to a master data base housed at Canley, Coventry.

(1) Reported in the Financial Times, 1 March, 1983.

Austin Rover's objective is not only to operate robot-run assembly lines but to possess a fully self-contained "total technology strategy"[(1)] linking design, toolmaking and computer integrated assembly via a central data base, which holds all available data on each model and is available to designers, engineers and product managers at each of the company's plants.

Table 4.1 - UK Car Production for domestic and export markets 1980-84: BL and Main Competitors

	1984	1983	1982	1981	1980
Austin Rover	371,427	433,183	369,839		
Land Rover[1]	11,897	12,181	13,235		
Total BL	383,324	473,341[2]	405,116[2]	413,440[2]	395,820[2]
Ford	273,767	318,674	306,635	342,171	342,767
GM/Vauxhall	117,114	126,524	112,669	69,932	55,002
Talbot	95,122	120,503	56,235	117,439	125,314
TOTAL UK	908,906	1,044,597	887,679	954,650	923,744

1 Range Rover production.
2 Includes Jaguar/Daimler production.

Source: SMMT

(1) Andrew Barr, Managing Director, Operations, Austin Rover, quoted in the Financial Times, 13 February, 1984.

But as Table 4.1 shows, despite Austin Rover's adoption of new technology, its production levels have remained consistently below target and below installed capacity. In April 1983 Ray Horrocks told the Industry and Trade Committee that total available car manufacturing capacity (assuming two-shift working) was between 600 and 700,000 units a year, with capacity for another 100,000 due to come on stream when new ranges were introduced.[1] As Table 4.1 shows, however, some 200 to 250,000 units of BL's car manufacturing capacity was not utilised in 1983. The figures for 1984 show a further drop in production.

It has recently been reported that BL's 1985 Corporate Plan estimates that Austin Rover would need to operate under current conditions at an annual production level of around 650,000 cars a year in order to generate sufficient internal revenue to finance the development of new models without further external assistance, and to guarantee the return of the company to private ownership by 1989.[2]

Austin Rover is still making efforts to increase productivity and cut its cost base, but a production target of 650,000 cars a year seems over-optimistic at present. The company is thought to be aiming nearer 500,000 this year.[3]

It has emerged recently that Austin Rover plans to introduce up to five new models in the next four years and that the company now has the capacity to cut developmnet lead times from around six years to four.[4]

(1) HC 353-i, Q. 61, 92.

(2) Reported in the Financial Times, 12 January, 1985.

(3) Reported in the Financial Times, 12 January, 1985.

(4) Reported in the Sunday Mercury, 2 September, 1984.

Collaborative ventures have become increasingly important since 1980 in keeping development and investment costs down, and look likely to remain crucial to the introduction of new models. In March 1981 Sir Michael Edwardes posed a series of rhetorical questions:-

> "Can BL in our present size and shape survive the next ten or 20 years? Has it enough R and D resources and so forth? The answer is 'No'. Can any competitor of our size and shape survive, and some are very profitable today? The answer is 'No'. Can we, however, become quite profitable and survive with comprehensive collaboration with others? The answer is decidedly: 'Yes'. There is no doubt about it."[1]

The arrangement under which Austin Rover produced the Triumph Acclaim and, to a lesser extent, the new Rover 200 series placed significant reliance on Honda design-work and bought-in engines and transmissions (though the new 216 model uses an Austin Rover "S"). The projected XX executive car is being developed jointly from the ground up and costs associated with its design and development are being halved.

There have, however, been problems in important areas of the car's development stage, particularly with the Honda power-train for the larger 2.6 litre version[2], and these have led to a series of postponements to the proposed launch date. XX was initially due to be introduced in the autumn of 1985, but will now be delayed until at least the early summer of 1986.

(1) HC 294, Q. 157.

(2) Reported in the Financial Times, 14 January, 1985.

It seems clear that collaboration is essential if Austin Rover is to have any chance of remaining in the volume car business as it intends, though the company's survival depends at least equally on its ability to sell its new models and recapture lost market share.

Sales

Perhaps the most ominous development for Austin Rover in recent years has been the increasing share of the domestic market taken by imports and tied imports. Total import penetration stood at 57.6 per cent last year, up from 56.9 per cent in 1983 and just below the 1982 peak of 57.7 per cent. Over a third of this is in the form of tied imports and kits brought in by Ford, GM and Peugot/Talbot. There seems at present little likelihood that this trend can be reversed to any significant degree in the immediate future.

Table 4.2 shows the recent sales performance of BL and its major competitors. Comparison with UK production figures in Table 4.1 shows how Vauxhall in particular has relied on tied imports to support its assault on the domestic market.

Table 4.2 - UK Car Sales 1981-84: BL and Main Competitors

New Registrations (000's) (Market Share)	1984	1983	1982	1981
BL	312,054[1] (17.84)	325,656[1] (18.18)	277,260[2] (17.83)	285,071[2] (19.20)
Ford[3]	486,971 (27.83)	518,048 (28.91)	474,192 (30.49)	459,365 (30.94)
GM/Vauxhall[3]	282,835 (16.17)	262,141 (14.63)	181,737 (11.69)	127,141 (8.56)
Peugot/Talbot[3]	70,519 (4.03)	79,495 (4.44)	75,785 (4.87)	85,853 (5.78)
TOTAL UK new registrations	1,749,650	1,791,699	1,555,027	1,484,713

Source: SMMT

Notes: 1 Includes Range Rovers. Market share for Austin Rover alone is as follows:-

1981	18.67
1982	17.24
1983	18.01
1984	17.66

(Source: *Financial Times*, 12 January, 1985)

2 Also includes Jaguar.

3 Includes tied imports and kits.

After a revival in 1983 BL's sales slipped in 1984. The inexorable rise in GM sales, thanks chiefly to the success of the Vauxhall Cavalier and, to a lesser extent, the Nova and Astra, presents a serious threat for Austin Rover. Ford's Sierra range has not captured the same share of the market held by its predecessor the Cortina but it nevertheless remains a steady seller, particularly in the all-important fleet market, where Austin Rover's new Montego is currently held in third place behind the Cavalier and Sierra.

Despite widespread critical acclaim, the Montego has been slow to penetrate the fleet market, though there are signs of awakening interest amongst large fleet purchasers. Nearly 35,000 Montegos were sold between its launch in April 1984 and the end of the year, but it is generally recognised that it will have to sell much better in 1985 if Austin Rover's immediate prospects are to improve. At the time of the Montego's launch Austin Rover were looking to eventually produce 120,000 a year.

Metro and Maestro sold well in 1984 (sales of 117,000 and 83,000 respectively) but could not topple the Ford Escort (157,000), Vauxhall Cavalier (132,000) and Ford Fiesta (126,000), though in the previous two years the Metro had outsold the Ford Fiesta.

Ford ran a very aggressive dealer incentive campaign during 1984, and perhaps most worrying for Austin Rover is the current battle for market share between Ford and Vauxhall led by massive press and television advertising campaigns and backed up by promotional activities and aggressive discounting.

Austin Rover has been offering discounts to fleet buyers, but not on the scale offered by Ford and GM, both of whom are backed by record profits from US operations, and there is a danger that Maestro and Montego could be gunned down in the crossfire in any protracted discounting war.

Austin Rover's difficulties have been compounded by industrial relations problems at crucial periods. The launch of Maestro in March 1983 was almost immediately followed by the 'washing-up' strike at Cowley, and Montego's introduction in April 1984 was followed by a spate of wildcat stoppages at Cowley and a strike at Longbridge. These disputes are considered by the company to be largely responsible for Austin Rover's poor sales performance in the key month of August last year. One executive complained:-

> "Short of stock and going into the peak selling month, how could we afford to offer our dealers incentives available to the competition."[1]

The November pay strike also starved Austin Rover of new Montego and Maestro variants and held up a drive for European markets. Over 30,000 vehicles were lost and BL's December market share fell to only 11.8 per cent.

In January and February this year BL improved its market share to an average of 18.9 per cent, but this has followed the introduction of more generous dealer incentives, increased discounts and more aggressive promotions. Dealers have been set the target of achieving a 22 per cent market share for 1985 though it is believed that total sales of around 435,000 (implying at least a 19 per cent domestic share) would allow Austin Rover to break even on trading.[2]

This target might perhaps be achieved if Austin Rover can improve its penetration of export markets. In 1984 foreign sales totalled about 80,000 cars, and its target for 1985 is thought to be about 110,000.[3]

The company is looking for an expansion in exports, particularly in Europe, but here also it is in danger of being muscled out by Ford, GM and other competitors. All major European markets have far lower import penetration than in the UK and in none does BL rank as a significant importer. Table 4.3 shows BL's car sales in important EEC markets.

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(1) Reported in the Financial Times, 12 January, 1985.

(2) Reported in the Financial Times, 12 & 17 January, 1985.

(3) Reported in the Financial Times, 9 January, 1985.

Table 4.3 - BL Sales in Principal EEC Markets, 1980-83

SALES (Market Share)	Belgium	France	W Germany	Italy	Netherlands
1983	1,059 (1.7)	30,651 (1.5)	5,772 (0.2)	27,093 (1.7)	7,976 (1.7)
1982	5,629 (1.6)	33,199 (1.6)	6,712 (0.3)	29,075 (1.7)	6,321 (1.6)
1981	4,842 (1.3)	24,048 (1.3)	6,343 (0.3)	23,087 (1.3)	6,416 (1.7)
1980	5,305 (1.3)	20,625 (1.1)	4,013 (0.2)	12,100 (0.8)	7,346 (1.6)

Source: SMMT

The European new car market shrank in 1984 to 10.18 million from 10.50 million in the previous year, and Austin Rover's average share dropped from 4 to 3.9 per cent. Most major European manufacturers made substantial losses between 1980 and 1984 and in the same five years the industry as a whole returned a collective deficit. In 1984 this may have been as high as £650 million.(1)

It is estimated that there is an annual production capacity of around 12.5 million cars in Europe currently, compared with demand of just over 10 million. The persistence of this over capacity is likely to result in continuing cut-throat competition and unprofitability, and whatever the quality of its product range, Austin Rover is unlikely to be able to capture market share against competition from the likes of Ford and GM who are prepared to use record profits from their US operations to buy or maintain market share in Europe.

(1) Reported in the Sunday Times, 13 January, 1985.

Austin Rover has also argued that its competitive position is hampered by the financial assistance offered to a number of European domestic producers by their governments to help offset losses and implement investment plans. The Italian government has helped Alfa Romeo and the French government has aided Renault and, to a lesser extent, Peugot. Inter-group loans from GM to its West German Opel subsidiary fulfil a similar function (though interestingly Ford UK was until recently providing cash for its UK parent company).

On the other side of the equation, however, recent movements in exchange rates are likely to assist Austin Rover's competitiveness in foreign markets. The decline of Sterling against the Franc and Deutschmark may open up the important French and West German markets. Until 1983 BL argued that a strong pound hindered their export prospects. But since the first quarter of 1984 the pound has fallen against all major currencies and its non-Dollar trade-weighted index fell by nearly 10 per cent between August 1984 and February 1985. This ought to offer an unrivalled opportunity to boost exports in Europe.

However, Austin Rover's prospects in the US market look unpromising in the short-term, despite the strength of the Dollar against Sterling. Austin Rover has no competitive products on offer, and the Rover XX which the company sees as a likely market penetrator in the US will not be available in the export market until 1987. The Reagan administration is to end 'voluntary restraints' on Japanese imports from April 1985 and in the increasingly competitive market which will ensue there are unlikely to be any pickings for Austin Rover.

COMMERCIAL VEHICLES

Production

Table 4.4 presents comparative output figures for BL and its main competitors since 1980. The commercial vehicle category comprises car-derived van, four-wheel-drive vehicles, light and medium vans, trucks, buses and coaches.

Table 4.4 - UK Commercial Vehicle Production 1980-84: BL and Main Competitors

	1984	1983	1982	1981	1980
Austin Rover		25,147	20,995	14,802	31,908
Land Rover		30,093	39,903	41,060	51,378
Freight Rover		18,152	13,767	10,594	23,393
Leyland Vehicles[1]		12,810	14,260	16,852	22,953
Total BL	72,518	86,202	88,925	83,308	129,632
Ford	94,211	96,843	115,637	85,324	138,373
GM/Bedford	47,007	51,478	51,733	48,311	96,424
Talbot/Dodge			6,395	8,457	16,334
Total UK	224,825	244,514	268,798	229,555	389,170

1 Leyland Trucks and Leyland Bus.
Source: SMMT

These figures show that UK production has slumped since 1980, reflecting a depressed world market in most CV sectors and increasing competition in both domestic and export markets. The UK market as a whole has held up reasonably well, but in some sectors it has been depressed for several years and the steady fall in BL's production reflects rationalisation of plant capacity and the collapse of export markets for Land Rovers and trucks in some Third World countries.

As with its car operations BL had surplus CV production capacity in 1983, according to Ray Horrocks and the Chief Executive of Land Rover-Leyland, David Andrews. Horrocks told the Industry and Trade Committee that Austin Rover could produce some 100,000 car-derived vans annually[(1)], while Andrews stated that Land Rover Group could produce 100,000 vehicles, and Leyland Vehicles 25,000 trucks and 3,000 buses and coaches annually.[(2)] Andrews told the same Committee a year later that the bus division was running at between 55 and 60 per cent capacity.[(3)]

Actual output figures in Table 4.4 indicate that all BL's CV plants have substantial over-capacity despite closures and rationalisation since the late 1970's, and both Land Rover and Leyland Vehicles have announced further restructuring programmes in the last eighteen months.

Land Rover is currently in the middle of a major restructuring programme, which is due to be completed in 1986. The company has bought the former Rover plant at Solihull and is concentrating its activities around the main plant and seven satellite sites. The programme is costing some £200 million and is aimed at producing what Land Rover's managing director has described as a "single, integrated, modern facility".[(4)]

(1) HC 353-i, Q. 61.

(2) HC 353-i, Q. 65.

(3) HC 490, Q. 144-146.

(4) Quoted in the Financial Times, 12 November, 1983.

The company has also been up-grading its ageing product range. A modified basic Land Rover, the One Ten, was introduced in March 1983, and a new short-wheelbase model, the Land Rover Ninety, appeared in June 1984. Where possible key components such as brakes, axles, suspension and gearbox are being standardised in the new models. Concentration of production on one site will reduce the cost of transporting components and cut total overheads by about £14 million a year.[1] Land Rover appears to be belatedly responding to the need to develop new products in its attempts to match its competitors, relying on its models' traditional reputation for quality, durability and versatility.

Land Rover's subsidiary company Freight Rover has also streamlined its production capacity and introduced new models. A new wide-bodied 3.5 tonne Sherpa van was introduced in 1984 and the division's management has been looking at the possibility of introducing larger vans in the 4.5 to 5 tonne range.

As Table 4.4 shows Sherpa production rose considerably between 1981 and 1983.

Leyland Trucks announced further cut-backs in capacity in May 1984 beyond those already implemented between 1979 and 1981 and subsequently under its 1982 "radical plan". Production at the Bathgate plant is being phased out and the factory will close in 1986. The division is currently looking to concentrate axle manufacture at its Albion plant in Glasgow, and vehicle assembly at Leyland itself and Watford's Scammell plant.[2]

Since 1978 Leyland Trucks has cut its capacity by 55 per cent and its workforce by 60 per cent to around 12,000.

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(1) Reported in the Financial Times, 12 November, 1983.

(2) HC 490, Q. 122.

In the last five years the company has introduced, at a cost of £60 million, five new models covering the six to forty-tonne categories, bracketed as the T45 range and marketed as the company's "Trucks for Europe". A new light truck, the Roadrunner, completes the range and was launched in October 1984. It is aimed particularly at small fleet operators with under five vehicles.

Leyland now possesses a new technical centre, costing £22 million, but in developing its model range the company is looking to buy in most of its engines and all transmission units. The company pulled out of a joint venture with Cummins, the US diesel engine manufacturer, to produce a new engine at Bathgate.

In other areas of its development and manufacturing operations Leyland Trucks has made significant technical advances, but it will only be able to finance future investment, even for its remaining slimmed-down operations, if sales improve radically.

Leyland Bus has also cut back its production capacity in response to shrinking markets, and has begun to diversify its product range. It has developed a rail-born coach, the Rail Bus, in conjunction with British Rail Engineering, and the range is being expanded to compete in both UK and overseas markets.

The division has also concluded a deal with the Gillig Corporation of San Francisco for the assembly and marketing of Leyland's double-deck buses in California.

Sales

Table 4.5 - New UK Commercial Vehicle Registrations 1980-84: BL and Main Competitors

New Registrations (market share)	1984	1983	1982	1981	1980
Austin Rover	18,442	25,256)			
Land Rover	6,757	6,768)	34,006	32,105	46,254
Freight Rover	14,645	14,204)			
Leyland Trucks	7,735	7,476	6,062	7,183	10,616
Leyland Bus	1,488	1,801	1,844	2,332	3,059
Total BL	49,397 (18.36)	55,505 (20.72)	41,912 (18.14)	41,620 (19.11)	59,929 (22.03)
Ford[1]	83,211 (30.93)	86,546 (32.31)	84,161 (36.43)	65,443 (30.05)	87,947 (32.33)
GM[1]	39,220 (14.58)	36,672 (13.69)	31,734 (13.74)	30,543 (14.02)	40,176 (14.77)
Peugot/Talbot	10,361 (3.85)	9,154 (3.42)	N/A	N/A	
Total UK	269,003	267,839	231,010	217,812	272,010

1 Includes sales of buses and coaches.
Source: SMMT

Table 4.5 shows how BL's overall commercial vehicle operations have held market share relatively well, but these averages conceal wide variations.

For example, the UK market for buses and coaches has nearly halved since 1980, from 5,301 in that year to 2,928 in 1983. Leyland Bus' sales fell correspondingly, and by closing plants and shedding labour the division has maintained market share, but on a 50 per cent lower sales base.

The division is concerned at the potential effects of legislation de-regulating bus and coach services in the UK. It has argued that the phasing out of subsidies to local authority operators has already contributed to the decline in the domestic market, and that de-regulation will encourage more small operators who may rely on second-hand vehicles and make less generous provision for depreciation and renewal. Leyland Bus is looking to exports and product diversification to counteract any further shrinkage in the UK market.

The truck market remains depressed and many European manufacturers suffered in the highly competitive environment which existed after the recession bit in 1980. Over-capacity led to cut-throat pricing and Leyland Trucks' share of the domestic market fell from 19.3 per cent in 1978 (it had been 30 per cent in 1973) to 17.3 per cent in 1980 and 13.4 per cent in 1982. It rose again to 14.9 per cent in 1983 but fell again to 14.6 per cent last year. At the same time, foreign manufacturers such as Volvo and Scania have been looking to make in-roads in the UK market, while the position of Ford and GM remains strong.

Leyland is depending very heavily on the success of Roadrunner to recapture lost market share. The company hopes to sell 3,000 this year. Initial orders were encouraging - by November 1984 orders worth £25 million had been received.[1] However, there is little sign that the domestic truck market is on the threshold of a major recovery and even with its new product range the company's future is in grave doubt. With under 8,000 sales last year Leyland is nowhere near approaching the volume base which it would need to become profitable.

(1) House of Lords Official Report, 6 December, 1984, c1452-3w.

Leyland's overseas markets have also suffered. The African market has all but collapsed as previously large importers like Nigeria plunged into economic crisis. Leyland's truck exports halved from 6,000 units in 1982 to 3,000 in 1983. Markets in Europe and the Near East have also shrunk but sales to the Far East, particularly Hong Kong, Singapore and Thailand, have held up well.

Even on optimistic forecasts Leyland did not expect to exceed 12,000 trucks sold in 1984, and as the company's managing director is quoted as saying,

> "we can't make money on 12,000 trucks."(1)

The company estimate it would need to increase this volume by 50 per cent to stand any chance of returning to profit by 1988. Given the current state of the truck market this looks a very tall order.

Land Rover's sales have also suffered from the collapse of several of its Third World markets. For example, in 1981 it exported nearly 6,000 vehicles to Nigeria. In 1982 this fell to under 1,000 and in 1983 to only 300. Likewise Land Rover sold 3,500 units to Libya in 1982. Last year it sold none. Total exports fell from 31,000 in 1982 to 19,000 in 1983. The company is currently looking for new markets in Europe and elsewhere - for example, in India and China - but these will not quickly replace lost export volume.

The principal worldwide threat to Land Rover's sales has come from Japanese manufacturers, who have doubled their share of the world market in a decade and who now manufacture half of all 4x4 vehicles sold. The major threat to Land Rover sales has come from the Toyota Land Cruiser and the Nissan Patrol.

(1) Reported in Management Today, December 1984.

Exporting is likely to remain vital to Land Rover's sales prospects. The domestic market represents only 20 per cent of the company's total business. Land Rover's UK sales rose slightly in 1983 and remained static last year but the company's total sales fell from nearly 41,000 in 1982 to 28,000 in 1983 as a consequence of lost export volume.

Nevertheless, Land Rover's future looks reasonably encouraging. The restructuring programme will streamline production and help cut costs. The company's products have a worldwide reputation with which its Japanese and other competitors cannot compete. Land Rover receives regular orders for military vehicles from foreign governments and in the private buyer market its products are pitched at the quality end where high profit margins can be achieved.

Freight Rover's UK sales rose slightly from 14,204 in 1983 to 14,645 in 1984, and the division is currently profitable having pulled back from near-collapse in 1981.

Freight Rover's sales have been boosted by three major orders from British Telecom since 1983, the last of which was announced in January this year and was for a further 2,350 vehicles with a showroom value of £14 million. British Telecom will have over 6,000 Sherpa vans in its fleets when deliveries are completed.

Freight Rover's exports declined from 1,600 in 1982 to 1,500 in 1983, but this slight fall was more than offset by improved domestic sales.

In the car-derived van sector 1984 was a poor year for Austin Rover. The company blames industrial disputes for some lost sales, though potential customers were also inhibited by having to wait for the new Maestro van to replace the obsolescent Ital van. The Maestro van has already begun to prove attractive and in January this year British Telecom placed an order for 3,000 with a showroom value of almost £14 million. British Telecom also has the option of ordering a further 1,500.

Austin Rover soon hopes to compete in the increasingly important diesel van market. It is currently engaged in a joint project with Perkins to develop a direct-injection engine which it claims will be more efficient than existing diesels.

Austin Rover exports vans to Europe in some quantity, but BL's share of the total European market fell from 9.1 per cent in 1979 to 6.1 per cent in 1983 in a market which grew from 348,000 to 436,000.[1]

(1) Reported in the Financial Times, 9 July, 1984.

Section 5 BL Performance 1980-84: Productivity, Pay and Industrial Relations

Since the late 1960s the motor industry has become synonomous with bad industrial relations. Car assembly workers have become to be considered amongst the best paid and most militant groups in British manufacturing industry.

At British Leyland multi-unionism, fragmented wage bargaining machinery and concessions by management encouraged the growth of a rigid structure of working practices and increased vulnerability to industrial action.

Sir Michael Edwardes' recovery strategy included amongst its central objectives the need to increase productivity and reduce costs across the board. The means by which this was to be achieved included clsoing plants, cutting the workforce and pushing through reforms in working practices. Edwardes' strategy for achieving these objectives required reasserting the prerogative of management to manage and confronting the powerful trade unions within BL.

In October 1979 BL presented a 92 page document on proposed changes to working practices in its car plants, abrogating unilaterally the 'mutuality' agreement negotiated in 1971 by which management sought the agreement of shopstewards to changes in manning levels, track speeds, work assignment and other practices.

In April 1980 an abbreviated form of this document, known as the 'blue newspaper', was presented as a fait accompli. The management's position had been strengthened in the intervening monghts by the defeat of strikes precipitated by the Edwardes' Recovery Plan and the sacking of the Longbridge convenor, Derek Robinson.

The imposition of the terms of the 'blue newspaper' provoked a further strike, but management made clear its intention to tought it out and appeared to be gambling that disruption caused by its unilateral action would be short-lived.

It is clear that the management's assumption has not been wholly justified (see below pages 67 ff.) but the changes soon brought visible improvements in productivity.

Productivity

The reform of working practices, coupled with radical restructuring and the introduction of new technology, quickly increased productivity in BL's assembly operations. In 1980 output was 5.06 vehicles per man/year, well below comparable levels for BL's major competitors. In 1981 this rose to 7.45. These figures include Jaguar production, which because of its specialised techniques brought the average down. Figures for Austin Rover alone show that productivity rose from 10.2 cars per man/year in 1982 to 12.1 in 1983.(1) It now stands at around 14, with further improvements anticipated.

On an individual plant basis productivity gains have been even more astounding. It was reported in February 1982 that output at Longbridge was the equivalent of 42 cars per man/year, 36 per cent higher than a year previously.(2) A survey published in February 1984 estimated that productivity had risen to 55 cars per man/year, making the plant more efficient than any other major European assembly plant (by comparison Talbot's Ryton works produced 37 cars per man/year and Ford's Halewood plant 26).(3)

Austin Rover now claims with some justification that its plants are as efficient as those of tis Japanese competitors. Comparable figures for productivity trends in Land Rover and Leyland Vehicles are harder to piece together. BL does not provide a complete or consistent series of indicators to allow year on year comparison. For example, its review of 1983 gives an average output per man/year figure for the entire Land Rover-Leyland group.

(1) All figures from BL annual performance reviews.

(2) Reported in the Sunday Times, 21 March, 1982.

(3) Reported in The Engineer, 9 February, 1984.

However, by combining what figures are available for earlier years with rough calculations from recent production and manning levels the approximate position can be estimated. This reveals that despite plant closures and de-manning, productivity at both Land Rover and Leyland has remained static or fallen. Output per man/year figures are as follows:-

	1983	1982	1981	1980
Land Rover[1]	5.48	5.56	4.86	5.52
Leyland Vehicles	0.81	0.81	0.89	0.99

1 Land Rover, Range Rover and Sherpa production.

Industrial Disputes

BL is also reluctant to publish detailed information on the effects of industrial disputes on its operations. Company records show that between 1977 and 1982 the number of vehicles lost annually fell each year. In 1977 over a quarter of a million vehicles were lost. In 1982 the fugure was under 10,000.

BL now expresses its industrial relations record in terms of the number of manhours lost as a percentage of total available hours. The figures show the following trend:-

1983	1982	1981	1980
2.0	1.6	0.5	1.4

Manhours lost in 1982 were chiefly the result of a bitter strike at Leyland Vehicles over restructuring plans, and the 1983 figures derived largely from the 'washing-up' dispute at Cowley. The Cowley strike caused the loss of cars with a showroom value of £120 million, and a loss in revenue to the company of some £70-80 million.(1) Management blamed the unions, but a number of independent commentators argued that the company had aggravated the dispute by taking too far its assertive approach towards the unions.

(1) HC 353-i, Q. 24, 27.

The 'washing-up' dispute showed above all that the management had been wrong to assume that pushing through changes in working practices and workplace industrial relations would result in a once-for-all confrontation followed by a period of compliance from the labour force.

Both sides now recognise that substantial reforms in workplace organisation are needed to fill the vacuum left by the erosion of shop steward authority, and to restore discipline and authority on the shop floor. The current unsatisfactory situation has arisen as a direct result of the de-skilling and fragmentation of workplace organisation which followed the introduction of new technology and the assault by management on entrenched working practices. In March 1982 new procedural agreements were put into force aimed at improving communications between management and workforce. The seven TGWU and five AUEW full-time convenors at Cowley were put back on production. Each union was permitted only one convenor. Steward constituencies, previously small in comparison with manual workforces in other industries, grew larger and some workers were left unrepresented.

Ironically, by undermining or breaking the authority of shop stewards, Austin Rover's management has opened the way for increasing unofficial action. 1984 was a bad year for wildcat stoppages at Cowley and Longbridge. Though these may not appear serious in terms of percentages of man hours lost, stoppages of this kind can have a disproportionate effect on production continuity. By mid September there had been 130 wildcat strikes at Cowley, 30 in the preceeding three weeks alone.(1)

(1) Reported in the Financial Times, 15 September, 1984.

Resentment at what has come to be considered management by diktat has continued to build up at both Cowley and Longbridge, and 1984 ended with a major strike over the new pay round. The company is now seeking damages from the eight unions represented in Austin Rover under the 1984 Trade Union Act, but the position is confused because two of the major unions repudiated the strike. Whatever the outcome of the legal proceedings pending, damage has been done to Austin Rover's production at crucial times when it has been looking to boost sales of its new models and make an impact in foreign markets.

It is important for Austin Rover to supplement its efforts to bring the unions to heel by use of the new legislation with attempts to find appropriate procedures through which union representatives can curb unofficial action and deliver negotiated agreements.

Pay

The 1984 Austin Rover strike was the first major stoppage over pay since 1981. Increases in basic rates have been kept close to the rate of inflation, although consolidation of some bonus payments and opportunities for increased bonus earnings have raised average earnings well above percentage increases in grade rates. According to BL figures gross earnings rose by 77 per cent between 1977 and 1982.

Since 1982 annual wage negotiations have been conducted separately for the main vehicle divisions. The details of increases agreed are as follows:-

Austin Rover

Commencement date	Nov 1981[1]	Nov 1982[2]	Nov 1983	Nov 1984[3]
Increase in grade rates	3.8	5.0*	5.6*	5.1**

* plus £3.75 p.w. bonus consolidation. Bonus ceiling £30 p.w.
** plus £5.25 p.w. bonus consolidation. Bonus ceiling £30 p.w.

1 BL Cars (includes Jaguar and Land Rover)
2 Two year settlement.
3 Two year settlement. 5.0 per cent increase in rates from November 1985.

Land Rover

Commencement date	Oct 1982	Jan 1984	Jan 1985[1]
Increase in grade rates	5.8*	3.0	4.5**

* plus £5.25 p.w. bonus consolidation. Bonus ceiling £30 p.w.
** plus £5.00 p.w. bonus consolidation. Bonus ceiling £30 p.w.

1 Two year settlement. 5.0 per cent increase in rates plus £5.00 p.w. bonus consolidation from January 1986.

Leyland Vehicles

Commencement date	Sept 1981	Sept 1982	Sept 1983	Sept 1984
Increase in grade rates	4.0*	5.0**	2.5***	5.0****

* Bonus revised.
** Plus consolidated bonus revised.
*** Plus £5.33 p.w. bonus consolidation. Bonus ceiling £20.64 p.w.
**** Plus £5.67 p.w. bonus consolidation. Bonus ceiling reduced to £14.00 p.w.

Source: Incomes Data Services

The calculation of actual increase in earnings is less easy. Austin Rover estimates earnings to have risen by 15 per cent in the two years to November 1984. The average bonus payment in October 1984 was £19.37 per week. For Land Rover employees it was £12.39 per week.

Fluctuations in bonus payments were a major grievance in the 1984 Austin Rover pay negotiations. There was also a feeling that the company's success in 1983 entitled the workforce to a more generous settlement. In the event the final settlement increased grade rates by only about the same level as in 1982 and 1983, roughly in line with comparable settlements at Talbot and Vauxhall, and slightly less than that at Ford, where a 7 per cent increase in grade rates has been negotiated.

Section 6 BL and the Domestic Component Industry

As outlined in Section 1, one of the crucial arguments deployed in government discussion of BL's 1981 Corporate Plan was the effect which the demise of substantial parts of the company would have on short-term Exchequer costs, manufacturing output and employment amongst BL's suppliers. The Economist reported that Treasury estimates of the cost of liquidation ran as high as £3 billion.[1]

This was probably an exaggeration, but crucial to the calculations were estimates of how many jobs in component manufacturers and other suppliers depended on BL. Here there was (and remains) considerable dispute. The Department of Industry estimated that the ratio of jobs in dependent companies to employees in BL was 1:1.[2] Sir Michael Edwardes put the figure at nearer 2:1[3] and some estimates went as high as 3:1.

The Department of Industry submitted a memorandum to the Industry and Trade Committee explaining its methodology and its own estimates of the overall employment consequences of BL's closure, but this was not published. But it is clear that with 120,000 UK employees at the end of 1980, and a worldwide turnover of nearly £2.9 billion, BL was a major employer by any standards and that a substantial segment of the component industry was dependent on orders from BL. Total employment in SIC 35, covering the manufacture of vehicles, engines, bodies, caravans, trailers and metal components, was 412,000 in June 1980. This did not include employment in plastics, electronics, rubber or glass suppliers. It is not surprising therefore that Industry Department officials and a majority of the Cabinet shrank from the decision to allow BL to go down.

(1) 31 January, 1981.

(2) House of Commons Official Report, 4 March, 1981, col 141w.

(3) HC 294, Q. 175.

Five years later BL remains a major employer in the manufacturing sector, and Austin Rover places over £1 billion worth of orders with domestic component suppliers which rely on BL for a proportion of their business.

However, in the intervening years several inter-related developments have eroded the closeness of that dependence and precipitated structural changes within the industry. These include:-

1 BL's policy of purchasing more components abroad in its search for competitiveness on price, quality and technology.

2 A shrinking of the UK components market generally, as imported vehicles and tied imports take greater market share and UK-based multinationals buy in more foreign-made components for their domestic operations. Linked to this is the increased competition in the replacement parts market from vehicle manufacturers' own subsidiaries.

3 A diversification of operations by larger component manufacturers, both geographically and in product development, chiefly in response to UK market trends.

4 The loss of many smaller companies and major rationalisation by most of the larger manufacturers, who are now better equipped to operate in wider markets.

Reviewing these trends in turn:-

1 In April 1981 Sir Michael Edwardes told the Industry and Trade Committee that BL's purchasing of bought-in components was 95 per cent "British-based"[1], but that the company was increasingly looking abroad in its efforts to contain costs. By early 1983 it was reported that Austin Rover was already placing 15 per cent of its component orders abroad.[2]

(1) HC 294, Q. 177.

(2) Reported in The Times, 5 January, 1983.

In May 1984 Ray Horrocks told the Trade and Industry Committee that on a weighted average basis across all car production BL was running 93 per cent EEC content and 87 per cent "UK pure content", but that this was falling.(1) Horrocks had admitted a year earlier that it was possible to claim at least 60 per cent UK content at factory gate prices without purchasing any UK-made components, since the local content definition includes direct and some indirect overheads, including advertising, catering, energy costs, etc. In fact the margin within which domestic component manufacturers were competing was only about 20 to 30 per cent of the factory gate price per vehicle.(2)

Austin Rover has continued to warn that it may have to reduce this margin still further and increase its purchase of foreign components, though it has made clear its intention to buy British where it makes commercial sense to do so. This reflects some degree of discrete pressure from the Government, and the company has over the last two years entered into a number of two and three year contracts with UK suppliers. From the company's point of view this has not been a wholly successful move, and early last year Harold Musgrove issued an uncompromising warning to Austin Rover's suppliers. He said that he could buy certain components 15 to 20 per cent cheaper in Europe and that Austin Rover,

> "had no intention of jeopardising our long-term viability by accepting unjustifiably high prices or inadequate quality from our suppliers".(3)

(1) HC 490, Q. 111.

(2) HC 353-i, Q. 75 and 76.

(3) Reported in the Daily Telegraph, 28 March, 1984.

At the same time, other reports within Austin Rover suggested that very few of those suppliers with whom the company had negotiated long-term contracts were performing satisfactorily, and that the proportion of orders placed abroad might have to rise from 15 per cent to 45 per cent.(1)

Austin Rover has recently challenged its domestic suppliers to produce more competitive products and to try and win back orders from abroad, but it seems likely that it will have to look abroad still further as it seeks to trim costs and seek optimum quality in order to compete in the cut-throat volume car market.

In its commercial vehicle manufacturing BL has retained a higher UK content. In 1983 ths was 96 to 97 per cent in trucks and buses and 90 to 91 per cent in Land Rover products.(2) However, the trend towards examining foreign suppliers' products and prices is also evident in commercial vehicle manufacture and BL expected its UK sourcing to decline by about 1 per cent across all CV assembly in 1984 as against 1983.(3)

For suppliers of CV components the most damaging development has been the overall decline in vehicle assembly in the UK and the depressed state of world markets in certain sectors, notably trucks and buses.

(1) Reported in the Financial Times, 19 March, 1984.

(2) HC 353-i, Q. 82.

(3) HC 490, Q. 119.

2 Austin Rover's increasing use of foreign components is not only a function of price, quality and delivery. It also reflects falling technological standards amongst domestic suppliers. As Ray Horrocks told the Trade and Industry Committee in May 1984,

> "some UK manufacturers are not able to afford to keep up".[1]

This falling technology base derives chiefly from a general shrinking of the UK components market. Harold Musgrove explained in March 1984 that,

> "the volume base for components has moved out of Britain".[2]

Without this volume base manufacturers have beeen increasingly unable to fund expensive research and development or investment programmes. Census of production data show that betweeen 1979 and 1982 total capital expenditure in the motor vehicle parts sector (which excludes electrical, plastics, glass and rubber suppliers) fell from £209.5 million to £63.1 million, and, despite a fall in employment by 50 per cent, over the same period net capital expenditure per head dropped from £1,335 in 1979 to £585 in 1982.[3]

As a greater share of the car market has been taken by imports and tied imports domestic manufacturers have used their bargaining leverage to hold down component prices. Austin Rover has managed to keep its bought-in component prices almost constant in cash terms since 1980.

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(1) HC 490, Q. 118.

(2) Reported in the Daily Telegraph, 28 March, 1984.

(3) Business Monitor, PA 353, Motor Vehicle Parts.

Ford and GM have begun to respond to political pressure to manufacture more cars in the UK and rely less on tied imports, but this has not interrupted a trend towards greater foreign sourcing of components used in their domestic manufacturing operations. Professor Dan Jones has recently claimed that the UK content of GM cars sold in Britain fell from 89 per cent in 1973 to 26 per cent in 1983. In the same period the UK content of Ford's UK production fell from 86 per cent to 43 per cent, and of Talbot's from 97 per cent to 37 per cent. On the same basis the UK content of Austin Rover's output fell from 100 per cent to 92 per cent.

Overall Professor Jones concluded that the domestic component market had fallen by 60 per cent in a decade,

> "a devastating blow, which has eroded their competitiveness and ability to export".[1]

Balance of trade statistics show how quickly imports of components have risen while the value of exports has fallen in real terms. Table 6.1 shows imports and exports of parts and accessories from 1980 to 1984.

Table 6.1 - Balance of Trade in Vehicle Parts and Accessories 1980-84.

	1984*	1983	1982	1981	1980
UK Exports (£m current prices)	2,138	2.024	1,950	2,059	2,044
UK Imports (£m current prices)	+204	+131	+481	+905	+1,053

* January to November.

Source: Department of Trade and Industry.

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(1) Reported in the Financial Times, 18 January, 1985.

The UK still retains a small trade surplus in parts and accessories, but the trend is ominous.

In individual component sectors import penetration increased rapidly between 1978 and 1983. In metal components, for example, it rose from 36 per cent to nearly 60 per cent; in tyres from 22 per cent to 32 per cent; and in glass products from 16 per cent to 24 per cent.

Total sales (in the UK and abroad) of all motor components manufactured in the UK fell from £3.9 billion in 1979 to £3.4 billion in 1982.[1]

It is clear, then, that despite some pressure on BL to buy components abroad, the chief factors in the decline of the UK component industry have been wider market trends. As Harold Musgrove observed in March 1984,

> "I can't save the components industry alone".[2]

3 In response to these changing market circumstances many component manufacturers have been looking to diversify their operations and to avoid over-reliance on any single purchaser or any single market. Some have looked to foreign markets, others to product diversification or to moving parts of their manufacturing operations overseas.

(1) Figures quoted in The West Midlands Automobile Components Industry, West Midlands County Council, 1984, page 37 ff.

(2) Reported in the Daily Telegraph, 28 March, 1984.

Some, like GKN, have explored all three options. In response to British Leyland's troubles during the 1970's GKN opened plants in West Germany, where it manufactures transmissions, and the USA where it produces front wheel drive systems and constant velocity joints. Sales from its US operations now account for 18 per cent of GKN's turnover. The company has also diversified its domestic operations, manufacturing and distributing steel products and household hardware goods. Recently it has boosted its domestic component business by taking over a distribution network from Smiths Industries.

Automotive Products has also looked to boost its overseas operations. It won an order to supply Fiat with brake parts from a factory in north-west Italy. Automotive Products has also developed its business with Renault and Peugot-Citroen-Talbot from its French factories. The company is now looking to expand its US sales and Automotive Products' Chairman said recently that it was his aim to increase foreign sales from a thrid to a half of total turnover in the next five years.[1]

AE has negotiated a joint venture to supply the South Korean vehicle industry with engine pistons and foreign sales now account for over 50 per cent of turnover. Both Lucas and Dunlop depend extensively on overseas production and exports from UK plants.

Figures compiled by the Centre for Policy Studies show that even in 1981 these large component manufacturers depended on BL for less than 20 per cent of their total sales. For GKN it was 5 per cent; Automotive Products 18 per cent; AE 7 per cent; Dunlop 4 per cent; Lucas 12 per cent; Birmid Qualcast 12 per cent; Rubery Owen 15 per cent and Smiths Industries 8 per cent.[2]

(1) Reported in the Financial Times, 10 January, 1984.

(2) BL: Changing Gear, 1983, page 29.

All of these companies experienced deteriorating profitability as the recession bit, but very little of this can be directly attributed to a fall in sales to BL. In the last year or two almost all the major component manufacturers have returned to profitability or shown improved profits following major rationalisation and restructuring.

4 In the competitive and depressed market which prevailed from 1979 onwards, many smaller component manufacturers went out of business. Austin Rover alone cut the number of its suppliers by half, to around 800, between 1981 and 1983. Management's increased reliance on single-sourcing and a further placing of contracts abroad has cut this number still further.

The major manufacturers have also been badly hit, despite having weathered the storm and survived. Both Lucas and Dunlop have undertaken major restructuring and have cut their work-forces significantly, Lucas Electrical by 22,000 since 1981. AE cut its workforce from 22,600 in 1980 to 14,800 in 1982, and Automotive Products from 11,500 in 1980 to 6,000 last year, with a further 1,000 redundancies to follow. These are considered the success stories.

The extent of rationalisation within the industry is illustrated by the fact that between 1980 and 1982 the numbers employed in the manufacture of metal components alone fell from 146,500 to 108,000, and gross output from £2.6 billion to £2.3 billion.(1) The Financial Times reported in May 1983 that 160,000 jobs had gone in all sectors of the component sector in the previous three years.(2)

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(1) Census of Production data.

(2) 26 May, 1983.

Orders from BL are of great significance in specific instances and can be crucial in justifying development or investment expenditure. For example, in April 1984 Austin Rover awarded a three year contract for the supply of wheels to Dunlop's Automotive Engineering Division at Coventry. Dunlop had argued that the contract was vital in its decision to go ahead with a £5 million investment programme to develop new modern wheel-making capacity. The company warned that without the contract the division might cease to be viable and between 700 and 1,200 jobs might be at risk.(1)

A recently published report has estimated that Austin Rover's top 38 suppliers in the West Midlands, respresenting some 80 per cent of its locally-made components supply and just under a third of Austin Rover's total UK supply, employed almost 52,000 in 1983, of which just over 17,000 were directly dependent on Austin Rover derived employment.(2) The report calculated that including jobs amongst other direct suppliers and indirect suppliers between 40,700 and 68,500 jobs in the West Midlands component industry depended on Austin Rover, a ratio of between 2.3:1 and 3.9:1 given Austin Rover's 17,600 employees in the region.

However, in an increasingly international market for vehicles, knocked-down kits and components, UK manufacturers must look to their international competitiveness for their future survival. The recent weakness of the pound, particularly against the other major European currencies, works in their favour, both in boosting exports to other European countries and resisting imports from their component suppliers.

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(1) Reported in the Financial Times, 10 and 11 April, 1984.

(2) The West Midlands Automobile Components Industry, West Midlands County Council, 1984, chapter 7.

The opening of Nissan's plant in Washington will open up new opportunities for component suppliers, particularly as Japanese manufacturers like to operate a 'just in time' sourcing policy with component suppliers sited close to their assembly plants. It has recently been rumoured that Honda may open a manufacturing plant at Swindon and if they go ahead this would create still further opportunities for the industry.

The upheavals within the industry are now largely over. The industry has emerged structurally healthier and in general less dependent than previously on BL or other UK manufacturers, though of course in specific regions strong industrial links remain. Larger suppliers have diversified their markets and their product ranges and small companies have begun to co-operate on cost-saving measures and marketing activities to increase their competitiveness. All companies now appreciate that picking winners in product development is crucial and the one outstanding worry remains the availability of finance for investment. BL will no doubt continue to buy British where it can, but component suppliers can expect few favours, and orders from BL alone cannot create a high volume industry.

Section 7 Conclusions, Prospects and Options

Conclusions and Options

It is now possible to review BL's performance in the last four years and to take appropriate decisions on its future on a more rational and less apocalyptic basis than in January 1981, when the only choice available was between further subsidy or liquidation. At that time Sir Keith Joseph is reported as having considered that two thirds of the business would have been irrecoverable in the event of closure. Fundamental to the Cabinet's dilemma was the belief that to allow BL to go down would send shock-waves through the components industry and suppliers in other sectors.

Four years later the decline in the component sector anticipated as a consequence of BL's demise has occurred regardless. BL remains a major force in UK manufacturing and a significant contributor to the visible trade balance. But, as the review of BL's recent performance in Section 3 demonstrates, BL's anticipated recovery, precarious enough until 1983, petered out in 1984 and in some parts of its business, notably in its Land Rover-Leyland division, performance has slipped badly below short-term forecasts made in the 1981 Corporate Plan.

BL's current financial position is not dissimilar to that prevailing in late 1980 and early 1981. The company is arguing that it will need funding to finance development of new product ranges and that its recent poor performance has left it unable to meet its future investment requirements from internally-generated sources. When new funding was approved in January 1981 it was built into future funds flow forecasts that from 1983 profits would begin to make a net contribution towards capital requirements.

The Government has already stated categorically that no further aid is available for BL, and in its statement accompanying the company's interim results for 1984 the board declared:-

> "In future BL's funding will be met from operating cashflow, proceeds from the return of constituent businesses to the private sector and from private borrowings."

Given BL's recent results and immediate prospects there is little likelihood that profits will contribute to funding requirements in the short term. The company now makes less generous provision for depreciation and amortisation than previously and this change will further deplete cash provision for investment. Furthermore, BL has expressed its reluctance to borrow funds from the market given current high real interest rates.

On the other hand, considerable success has been achieved at cutting overheads and introducing new and more efficient design techniques and manufacturing systems, albeit at great cost in provision for plant closures and redundancies. Austin Rover, for instance, now possesses the technology to manufacture as efficiently as most domestic or overseas competitors and its collaborative ventures with Honda have cut development costs, most importantly in developing new power-train and transmission units.

1985 is a crucial, perhaps even make or break, year for Austin Rover. Its future viability depends on meeting higher production and sales targets, and exploiting its new flexible manufacturing systems to match its competitors' unit costs and labour productivity. Austin Rover must increase its penetration of the domestic market, particularly in the fleet sector, and boost exports. With a new and competitive range and more favourable exchange rates, it is clear that if the company is ever to be viable now is the time it must begin to increase sales volume to the point where profits can be generated.

However, it is doubtful whether Austin Rover can survive a protracted or savage discounting war against Ford and GM. On present trends it appears inconceivable that worldwide sales can quickly be pushed above 1984's 425,000 towards the 600,000 to 650,000 estimated as necessary to achieve profitability.

Austin Rover has recently announced its intention to launch a major assault on the US market in 1987, led by the eagerly-awaited XX joint venture with Honda. But unless the company's sales improve significantly in 1985 and 1986 it may not be able to survive in its present form until 1987. Recent press reports suggest the Government is concerned that Austin Rover's proposed new model development programme, with its associated investment expenditure (perhaps £750 million over the next five years), may be over optimistic and that the company's sales and output targets may be unrealistically ambitious.

In the long term Austin Rover may be compelled to enter into more extensive collaboration with Honda or another foreign manufacturer in order to survive. It has recently been reported that Austin Rover will manufacture Honda transmissions under licence and may also assemble Honda cars for the European market using some of its surplus manufacturing capacity.

As yet neither Austin Rover nor Honda is prepared to concede that the possibility of Honda taking an equity stake is a serious option. Such a step would, however, offer attractive benefits for both partners. Both would benefit in areas of engineering expertise where the other has an advantage. Honda would gain a major foothold in the lucrative EEC volume car market, where it currently has only a limited presence. Austin Rover would secure the backing of a worldwide corporate organisation with extensive financial resources, and access to export markets at present out of its reach.

In the commercial vehicle sector prospects for BL's manufacturing divisions are variable and unpredictable. Leyland Vehicles is perched on the precipice, and in 1983 the division appeared technically insolvent on the basis of the accounts provided. Losses were reduced in 1984, but if the division were part of a private sector corporation of similar size it is inconceivable that it would still be trading in view of its recent performance.

Industry forecasts of the likely size of the truck and bus markets in the short term are not encouraging, and in the domestic and European markets Leyland will continue to meet stiff competition. GM has signalled its intention to seek further penetration of the European market and this alone is a major threat. According to Leyland's management, the division cannot return to profit until 1988 at the earliest, but even this target looks out of reach.

Land Rover's prospects are more encouraging, given its products' reputation for quality. Recent movements in exchange rates should help the division in its all-important export drive, but with the collapse of some Third World markets, competition elsewhere will be fiercer still.

Land Rover is currently restructuring its manufacturing operations, offering the hope of further reductions in costs and increases in productivity. The division returned a small profit in 1984 and restructuring should enable Land Rover to build on this turnround if overseas sales hold up.

Options

The most recent Government policy statement on BL, published in February 1985, imposes two clear objectives on the board. First,

> "to return BL and its constituent businesses, either together or separately, to the private sector as soon as practical",

and secondly, to reach a position of being able

> "to attract external funds on normal commercial terms without Government support".

The slump in BL's financial results in 1984, and uncertain prospects across all vehicle markets, effectively ends any hope of moving into the sustainable recovery phase envisaged in 1981, and therefore of privatising BL as a single entity. Furthermore, as the discussion of the relationship between BL and government in Sections 1 and 2 showed, differences in political and commercial judgements have in the past hindered the privatisation of the major constituent businesses within BL. The BL board has consistently argued that the premature sale of profitable businesses would damage the viability prospects of those operations which remain unprofitable.

It is now time to change policy towards BL, and to alter the basis on which decisions on the timing and phasing of privatisation are made. The only way in which the Government's ultimate objectives for BL can be achieved is to consider the future of each business group independently. Commercial and political decisions on the inherent viability of each of BL's existing manufacturing divisions, or its potential for privatisation, should no longer be allowed to impinge on similar decisions on the future of the remainder.

The main manufacturing divisions within BL - Austin Rover, Unipart, Land Rover and Leyland Vehicles - are already Companies Act companies and return separately audited accounts. It is the BL board's existing policy to encourage the development of each business group as an independent entity. However, while these remain wholly-owned subsidiaries of BL plc it is hard to see how the obstacles which have dogged the Government's efforts to return BL to private ownership can be overcome.

It is therefore desirable that BL plc be wound up and its assets vested in BL's three vehicle manufacturing divisions, each of which would be run as entirely independent concerns with separate boards of directors, management teams and capital structure. The Government should buy out the holdings of the remaining private shareholders at an appropriate price, leaving the Secretary of State for Trade and Industry as sole shareholder. UK and overseas subsidiaries could either be grouped within each of the manufacturing divisions where appropriate, sold off or established as separate companies in their own right where they would be viable.

Timing would be a matter of political judgement, but 31 December, 1986 might be an expedient date at which to terminate the activiteis of BL plc. This would permit the sale of Unipart to be completed and also allow both Land Rover and Leyland Vehicles to carry through their current restructuring plans and emerge in leaner commercial shape.

It is hard to see how disaggregation would harm the commercial prospects of the three separate companies. There are no discernible economies of scale across BL's current vehicle manufacturing operations, and in external purchasing of components or inter-company vehicle sales the separate companies or their subsidiaries could negotiate agreements according to normal commercial practice, just as Unipart has been doing with Austin Rover as a prerequisite for its return to private ownership.

In setting the capital structure for each company the Government should look to providing a balance sheet resembling that of private sector companies where this can be achieved. Thus, for example, Austin Rover's balance sheet could be restructured to convert, say, 80 per cent of the company's loans from BL plc into equity, with the company looking to the markets for 20 per cent of its capital and offering a repayment to government of this amount. If, however, Leyland Vehicles' latest results show that its revenues remain insufficient to meet its cash operating costs, and that it would be unable to service debt charges even at such a low debt to equity ratio, all its capital would need to be converted into equity.

Each company should submit separate plans, forecasts and targets to the deparment, avoiding the horse-trading currently involved in the consideration of BL's annual Corporate Plan, and making monitoring procedures more relevant to day-to-day management decision-making.

Where it is judged best in the commercial interests of the relevant company, decision on the timing and method of privatising would be arrived at by agreement between the Secretary of State and the board, without fear that any such decisions could impinge on the viability of another part of BL. Proceeds would go to the Government. It would be for the department, throught its monitoring procedures, to assess a company's short-term prospects and long-term chances of viability, and to recommend political options to the Secretary of State.

In making these assessments the views of the respective boards and of departmental officials should be supplemented by an independent review of the commercial prospects and potential market value of each company commissioned from management consultants or a merchant bank prior to the winding up of BL plc.

Such a review should set realistic financial and performance targets to give the Secretary of State a clearer basis on which to make more rigorous contingency plans on the future of each business than has thus far been possible. This process would also allow for the setting of a more definitive timetable within which given profitability targets are to be achieved or plans for privatisation formulated.

It would be easier, for example, to persuade Austin Rover that its future lies in a marriage with Honda rather than a casual affair. Both Land Rover and Leyland could be given clearly specified periods in which to return to profit and prepare for privatisation, with alternative options in readiness if the desired profits do not materialise.

Thus, if, for example, it were to be decided that in view of continued lasses Leyland Vehicles should be given notice that its time had run out, the Secretary of State would have the capacity to sell the division as a whole if a buyer could be found, or invite bids for any of its subsidiary businesses (the profitable Leyland Parts for example) where they could be salvaged.

In setting appropriate financial targets and a timescale which would allow each of the companies the best chance of achieving profitability and an eventual return to private ownership, the Government would in the interim be able to exercise greater flexibility in ensuring that future funding requirements are met from market borrowings. At present government effectively underwrites any commercial loans negotiated by BL. However, by winding up the holding company the Government would be in a position to rescind the Varley-Marshall assurances where the balance sheet and commercial prospects of the company would warrant it, but maintain the commitment longer where commercial loans could not be negotiated without it, as at present with Leyland Vehicles, if this is deemed desirable.

To sum up, there seems no reason why each of the main vehicle producing divisions of BL should not now stand on its own. BL's overall recovery strategy, as envisaged by Sir Michael Edwardes, has been blown off course. In February 1981 Sir Keith Joseph told the Industry and Trade Committee that:-

> "the taxpayer is locked in until the company makes a profit or is sold or liquidated".[1]

Liquidation is no longer a serious threat, at least for the bulk of BL's remaining operations. But if the Government is to give BL's main vehicle manufacturing divisions every chance of viability and at the same time make its political will a reality, it must take the disaggregation of the declining BL empire a stage further.

(1) HC 294, Q. 41.