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FROM: CHIEF SECRETARY  
DATE: 3 December 1985

cc PWS  
BLUP  
✓  
cc Brittan

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PRIME MINISTER

**BL PRIVATISATION: GM/LAND ROVER-LEYLAND**

I agree with much of what is in Leon Brittan's minute of 25 November to you, discussing certain aspects of the sale of Land Rover-Leyland. In presenting the case for the Salton sale, it will be important to have undertakings from GM on future development and production in the UK. A lever to ensure performance, such as that proposed, would be useful. However, all this may affect the price GM is prepared to pay, and we will have to take a final judgement on these matters in the context of the total package.

2 There should be a good employment case to be made in favour of the deal because the future of both Bedford and LR-L on their own indicates substantial contraction, with job losses at least as great as those under Salton. It would be useful if we could have estimates of these job losses.

3 A similar argument would have to be used in the case of Buses, but the circumstances are more difficult because only part of the business has a potential buyer; the rest will have to be closed down. Also it will be clear that there is an overall cost to divesting BL of the bus operation, even though this would be substantially less than the losses that would otherwise have to be funded by BL.

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4 I agree that Leyland Bus should be sold off as quickly as possible, although January may be a little optimistic. Depending on the timing of the negotiations we will need to decide whether it is better to announce the bad news about Bus separately from Salton, depending on how good the news will be on the latter.

5 I hope that we can rely on the BL Board to press ahead as quickly as possible with the Bus sale. If there are doubts about this, we need to consider what action to take.

*This is a bit disingenuous. There is not that much time. The negotiators need a steer tomorrow.*

6 On Salton, I agree that we should negotiate a price which leaves all but the statutory redundancy costs with GM. On the price itself, officials are having a further meeting with GM this week. As the intention of both sides is to reach a quick agreement, I think that we should soon after that meeting decide upon the negotiating limits on price for the further negotiations.

7 I do not agree that BL should receive a capital injection from the Government. It is difficult to believe that banks would not be prepared to lend to BL. They have all along been able to rely upon the Government's Varley Marshall assurance, rather than BL's balance sheet.

8 BL would have substantially less debt, even with a sale price of only £120 million, than it would without the sale of LR-L. LR-L has not been servicing its debt but adding to it. To the extent that it might become profitable in the future, this should be reflected in the sale price, which will reduce the debt transferred.

9 As regards the West Midlands lobby, if there is a case for not increasing the debt on the ARG balance sheet it will be possible to leave it unchanged, the LR-L debts being held in BLMC or BL PLC. ARG's accounts and performance would then be unaffected by the sale of LR-L.

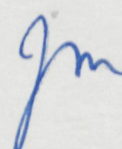
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10 I do not see the question of ARG privatisation being relevant. When ARG is privatised the remaining BL debts will have to be repaid. Unless ARG had by then gone through a very profitable period its debts would require a substantial capital injection at the time of privatisation. An injection now in relation to LR-L debt will not avoid that.

11 In my view there are three strong reasons against a capital injection. First, the public expenditure involved. I note that Leon foresees this as a claim on the Reserve. Second, the presentation of the sale would be made much more difficult. The injection would highlight that the operations had been sold without their debts, and commentators will deduct the injection from the sale proceeds to show how little the purchasers have paid, particularly in the case of Salton which includes Land Rover. Third, it has been our policy not to put further public money into BL. The reversal of that policy, involving a very substantial sum could have an unfortunate psychological effect on shop floor/management relations.

12 The one remaining issue is the attitude of the BL Board. I recognise that they will have to be able to say that the sales are in the best interests of the Company. That should be demonstrable without a capital injection. I hope therefore that Leon will be able to persuade them to take into account our view, as principal shareholders, that continued negotiations should not be made conditional on a capital injection.



JOHN MacGREGOR

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