

cc Mr Dwyer

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Pm Minutes - This can be
discussed at your meeting
next Wednesday.

SECRET COMMERCIAL - IN CONFIDENCE

See also at Flag A
John Hoskyns' paper.

Ref. A01832

PRIME MINISTER

No - it would be
best not to

would you like me
to circulate it?

circulate it to
everyone - it is very useful
to me

At your meeting on 24th March 1980 I was asked to consider how the

24/3

Government might provide itself with expert assistance on the question of disposing of some or all of BL's assets. I have done this in consultation with Sir Douglas Wass, Mr. Hoskyns, and (in the absence of Sir Peter Carey) Mr. Bullock of the Department of Industry.

2. The Board of BL - of which the non-executive directors in particular are acutely conscious of their duties as the guardians of the Government's interest - is itself undertaking contingency planning with merchant banking advice on possible partial disposals - e.g. of the truck division, or the Land Rover

7 Swales &
Hoskyns are
discussing
assets - this
is a matter for
the
& shareholders
being in mind of
what the
shareholders
of BL

division. Where partial disposals are concerned, that is a matter on which the Government as the owner of the company has to look to the existing management - unless and until it loses confidence in the management and changes it. Officials of the Department of Industry are, however, closely involved in this contingency planning, knowledge of which is for obvious reasons being confined to a small number of senior people in BL.

The position may be different if
BL were self-financing

3. The sale of the whole company would be a matter for the shareholder (i.e. the Government) rather than the management, and the management would be concerned only when the Government had decided to sell (either following or in advance of a decision by the Board of BL to withdraw the plan) and needed the management's assistance in the valuation of the various assets. The management could not be expected to provide this assistance while it was still committed to the Plan and had the Government's backing for it. If, in advance of this, approaches were initiated to possible purchasers, this would (in the view both of Sir Michael Edwardes and of the Department of Industry) almost inevitably look and be taken to mean that hope had been abandoned, and would be likely to precipitate a crisis and the withdrawal of the Plan. In any case the Government could not make such approaches behind the back of the BL Board, who might well take the view that, if the Government wanted such approaches made, this was

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tantamount to a vote of no confidence in them. Nevertheless (as we know) Sir Michael Edwardes is in private contact with the representative of one potential purchaser who is also in contact with the Department of Industry. If there were any other approaches, these could be handled similarly.

4. The Government would almost certainly get a couple of weeks' advance notice of a decision by the Board of BL to withdraw the plan. In that situation the Board would be willing to manage on behalf of the Government the process of dealing with the Company's assets; continuity of direction would be important in order to achieve as far as possible orderly disposal and rundown. The BL Board would want to strengthen their top management team by the appointment of one or more experts in dealing with this sort of operation. The Government might need to employ its own independent advice in that situation, and the Department of Industry has contingency plans for retaining the services of a merchant bank for this purpose (a different merchant bank from that which the Board of BL is already using).

5. The Department of Industry's team of officials on BL includes a partner from Touche Ross on secondment to the Industrial Development Unit who can at short notice divert as much time and effort on to the problems of BL as may be necessary.

6. The Board is still pressing on with the plan approved by Ministers last December, since they believe that they can still stay within the agreed funding limits. It is for them to decide whether and when to withdraw it. It is of course possible that the Board's natural reluctance to abandon the plan may lead them to drift, without coming to a positive decision, well beyond the point where there is any hope of the plan being viable. That is a danger of which both the non-executive directors and the Department of Industry are acutely conscious. For the Government, the dilemma is a choice between two evils: the danger of the Board drifting and a tide being missed; and the danger of precipitating a collapse which it is still the primary hope and objective of policy to avoid. For the reasons given in paragraph 3, we think that the Government should not initiate negotiations for a sale of the company in advance of a decision by the

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Board to withdraw the plan, unless the Government has concluded that the drift has reached a point where the plan cannot succeed. We judge that the Government has not yet reached that conclusion. But that view could change, if the Government thought that opportunities to sell BL as a going concern were available but could diminish with the passage of time.

7. We have considered whether it would be possible or worth while to engage a high-level professional adviser - an accountant or a merchant banker - in advance of a decision to initiate a sale. The purpose of this would be to put the Government in a position to bring a sale to a speedy conclusion and shorten the inevitable period of uncertainty which the negotiations would create. The following considerations are relevant:

- (a) While the Government, as owner, would need for the purposes of a sale more information relevant to the valuation of the assets than it has now, this could only be collected by detailed discussion with operating units within BL. To initiate such discussions now would have a disastrous effect within the company and precipitate a crisis. In any case, if and when it came to the point of a sale, that information would be required by the prospective purchaser as well as by the seller, and the process of negotiation would inevitably take some weeks. There is little or nothing an adviser could do with it now, if he got it.
- (b) We can see no way in which the information could be obtained from the company without the nature and purpose of the inquiry becoming known, or at least evident, to the company; and the moment that was known or guessed, it would at once be assumed that the Government had taken a secret decision to sell the company, in advance of the Board's decision to withdraw the plan. We do not believe that it would be practicable to appoint the person concerned as a non-executive director, a kind of Trojan horse: the cover would not stand up, because he would be asking for information for which an ordinary non-executive director would not need to ask.

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8. We conclude that the Government should not engage a full-time high-level professional adviser in advance of a decision to initiate a sale or a definite approach from a potential purchaser - a contingency which we fear would be remote unless and until the company was seen to have reached the end of the road, and therefore likely to be available cheaply.

9. We nevertheless share the view of Ministers that we are dealing with problems and possibilities which, both by their nature and by the sheer size of their potential consequences, are unfamiliar to Government. In that situation Ministers might well feel that it would be helpful to reinforce the assessments available to them from within Government and the judgments they may have to make, by discussing them with somebody who has the right combination of qualities of wise judgment and long experience in dealing with industrial problems of this kind. If this idea commends itself to Ministers, we suggest that a possible course might be to invite somebody - say, Sir Henry Benson, who we think might be the best man for the purpose - to come and see the Chancellor of the Exchequer and the Secretary of State for Industry - and you, if you want to be involved at this first stage; they could explain in outline the problem Ministers faced and the advice and help for which they were looking; he could then be briefed by officials of the Department of Industry; and he could then be invited to come to a meeting with a slightly larger group of Ministers - you, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Employment. Amongst other things, you would be able to test with such a man our judgment that the time has not yet come to engage a full-time professional adviser.

10. We think that Sir Michael Edwardes would need to be told what Ministers were proposing to do and to be given an opportunity of letting Ministers know his reactions.

11. I am sending copies of this minute to the Chancellor of the Exchequer, and to the Secretaries of State for Industry and Employment.

REA

(Robert Armstrong)

28th March, 1980