



PRIME MINISTER

BL: FUTURE STRUCTURE

1 You may like to see the enclosed strictly confidential letter from Sir Michael Edwardes, which, at his request, I have not circulated in the Department and which I am sending only to you and the Chancellor on a personal basis.

2 Edwardes proposes, in effect, a structure for BL following his own departure at the end of 1982. There would be two separate groups, each owned directly by the Secretary of State. The first group would consist of the Cars Group and Unipart, while the second group would include Land Rover and the Leyland Group (if it survives). All the four (or three) units would continue to be autonomous Companies Act companies on the lines we have already agreed. The present non-executive Board would be split between the two groups: each would have a non-executive Chairman (possibly Sir Austin Bide and Sir Robert Hunt respectively) and the two present executive members of the BL Board (Horrocks and Andrews) would each be Chief Executive of one of the groups. None of those affected knows of Sir Michael's thinking on these matters - hence the need for confidential handling of the papers. I also attach part of the record of a meeting on 9 July when Norman Tebbit and I challenged some of Edwardes' suggestions.

3 In some ways this proposal is attractive. It would ensure that BL as such would disappear and there is obviously a strong case for breaking BL into more manageable units. The same logic is behind the thrust to establish the four autonomous units. Moreover, there are clearly strong links between the Cars Group and Unipart (Edwardes argues that a car company cannot be run entirely independently of its spare parts operation) and between Land Rover and the Leyland Group. Much of Landrover's vital overseas marketing is shared with the Leyland Group and the two companies' production plans are increasingly closely linked

COPY No. 1

Prime Minister
Robin Hobbs (Play A) and the Policy Unit (Play B)
advise that it would be unwise to
express any view on Michael Edwardes'
proposals until a decision is taken
on the future of the Leyland Group
(i.e. heavy vehicles) in the autumn.

Agree?

PL
30/7

X



(the Sherpa, now part of Landrover, will increasingly use Land Rover parts and is the basis of the Leyland Group's proposed new light truck). But there is a risk that linking Unipart to the Cars Group and Landrover to the Leyland Group might make it harder to introduce private capital into Landrover and Unipart. This could delay privatisation and we must take this into account.

4 We shall need to consider Edwardes' ideas in due course. But for the present I think we need to give priority to the still-to-be resolved issue of whether the Leyland Group should survive at all. Officials advise (and I agree) that BL should be told that the new Corporate Plan for the Leyland Group, due in about November, should cover fully worked alternatives including complete closure, a full range plan and a narrower range plan. There is a serious possibility, to put it no higher, that the Leyland Group will not survive the Board's own scrutiny. It does not seem sensible to set off now on a reorganisation geared to the Leyland Group's survival, especially as no immediate action will be delayed by deferring a decision.

5 I therefore propose, if you and the Chancellor agree, to tell Edwardes that we are not unsympathetic to his proposal, but will wish to look at it again after decisions have been taken on the Leyland Group.

KJ.

K J

24 July 1981

Department of Industry
Ashdown House
123 Victoria Street

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FROM SIR MICHAEL EDWARDES

24th June 1981

RECEIVED IN
S.O.S. FOR
INDUSTRIES OFFICE

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
London SW1.

1981 VI 25

11:33

STRICTLY CONFIDENTIAL

Dear Secretary of State,

Following our discussion on 18th June, I am writing as we agreed to set out my thinking on the future organisation of BL, so that you can sound out your senior colleagues on the general approach. I have not so far consulted the BL Board but have discussed the concept with Austin Bide, who is in full agreement. If my thinking is acceptable in principle to you and your colleagues, I shall then, of course, involve the Board as well as setting in train some staff work, on a strictly confidential basis, to validate the financial and legal aspects of the proposals.

The main objectives of my proposals are:-

1. to carry forward the division of BL into more manageable self-contained units;
2. to facilitate the introduction of private capital into parts of our mainstream business; and
3. to match the key jobs (both executive and non-executive) to the personnel likely in practice to be available, taking account of the fact that my executive involvement ceases at the end of 1982.

Continued

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2.

I propose that during the second half of 1982 we should work gradually towards the division of BL into two companies, which from 1st January 1983 would become completely self-contained businesses reporting separately to the Government. This would not involve any change in the four-business operational grouping being established this year. The new structure, which evolves from the current four-business split, is shown on the attached chart.

Possible Board membership is shown only for illustrative purposes. It is, however, important to note that under a two-company structure it becomes possible, in my view, to form the nucleus of the Boards and provide the necessary leadership from within existing executive and non-executive resources. The fact that the new structure mirrors the existing operational division between Ray Horrocks and David Andrews (each of whom now run two of the four business entities) should also facilitate a smooth transition, as I would be able to phase myself out of executive responsibility gradually between 1st September 1982, when the new Boards will be set up, and 31st December 1982, when my service contract expires.

Several obvious questions arise from this brief outline:-

- Handling of 1982 and 1983 Plans. I envisage that the format of the 1982 Plan should be the same as last year, i.e. a separate Plan for each of our four main business groups, with a summary volume for BL Ltd. The two new Boards would be fully involved in the development of the 1983 Plan which would, of course, consist of two documents, one for each of the new companies.

Continued

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3.

- Future of functions currently performed by BL Ltd. Headquarters staff would be divided between the two new companies but would remain in one building to facilitate continuity. The two companies would probably maintain the existing pension fund arrangements on a shared basis. The future of certain other operations which provide shared services will require further study.
- Finance. The two new companies would become responsible for their own external funding, including the limited amount of Government funding which is envisaged on present assumptions. The disappearance of BL Ltd. will require the re-negotiation or replacement of all external loan funds. In particular, some £87m of loan stocks and associated borrowings is unlikely to be re-negotiable, but this is a necessary step in any case to lead towards privatisation.
- Private sector shareholdings. It would be necessary to solve the problem of the 80,000 minority shareholders of BL Ltd. - again, a pre-requisite of privatisation in any case. As an alternative to buying them out at a total cost of £12.8m, they could perhaps be offered an option to acquire shares in Land Rover or Unipart when substantial minority shareholdings in these businesses were subsequently floated. This would require a public commitment from the present Board that such a flotation should take place before the end of 1983.

Continued

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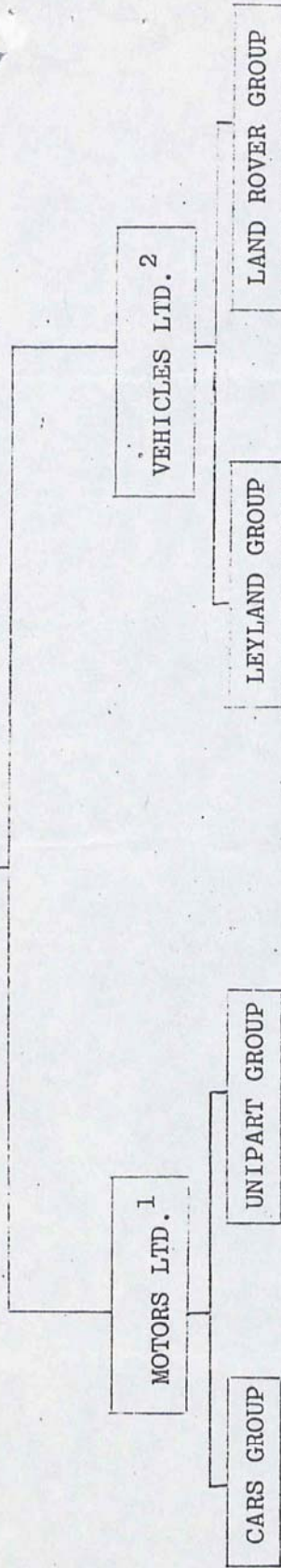
4.

I hope this gives you sufficient detail to enable you to consult your senior colleagues on the general principle. I do not expect a firm endorsement at this stage - simply an amber light which will make it worthwhile proceeding to the next stage of consulting my Board and validating the feasibility, particularly on the financial aspects. I intend to take the matter no further until I hear from you, and I understand that for your part you will restrict discussion to the Prime Minister and the Chancellor at this stage.

Your sincerely
Michael S. Swann.

Enc:

GOVERNMENT



1 Nucleus of Motors Ltd. Board

Non-executive Chairman: (e.g.) Sir Austin Bide

Chief Executive:

R. Horrocks

Non-executive Directors: Sir Michael Edwardes

: either Sir Robert Clark
or J.R. Mayhew-Sanders

2 Nucleus of Vehicles Ltd. Board

Non-executive Chairman: (e.g.) Sir Robert Hun

Chief Executive:

D.R.G. Andrews

Non-executive Directors: Sir Michael Edwardes

: Sir Robert Clark or
J.R. Mayhew-Sanders
(whoever does not
serve on Motors Ltd.
Board.)