

CONFIDENTIAL PERSON

AD JV (1)



PRIME MINISTER

BL: FUTURE STRUCTURE

I am worried about this move. I believe it will prevent us from selling off Land Rover and Jaguar. I am anxious to get rid of it. Prime Minister

an ad hoc content to hold a meeting (Chancellor, yes)

we can't do that. The proposals for Industry Trade and Employment plus put in a meeting? Both CPRS and Policy Unit

You will recall that Keith Joseph consulted you on 24 July about a proposal by Sir Michael Edwardes to split BL into two companies, each to be held directly by the Secretary of State. At that time you decided (your Private Secretary's letter of 31 July) that no view should be expressed on the proposals until decisions on the future of the Leyland Group had been taken.

putting in their thoughts on this subject. MS 4/1

2 Now that you have agreed, subject to the views of colleagues, to the proposals on the future of the Leyland Group as part of the latest Corporate Plan, the way is clear for us to consider Sir Michael's proposals on future structure. I have discussed these with him on several occasions (including one discussion with all the non-Executive members of the Board, who strongly support the proposals), and he has put the attached paper to me describing his ideas. Briefly he proposes that the Cars Group and Unipart Group should be formed into one company and the Leyland Group and the Land Rover Group should be formed into another. Mr Ray Horrocks should be Chief Executive of the first and Mr David Andrews of the second (these being the groups of which they are already Chairmen); and each would have a non-Executive Chairman chosen from the present Board. Sir



Austin Bide would probably be Chairman of the Cars/Unipart company.

3 I support Sir Michael's plan. I see some important advantages in it, in particular:

(a) it recognises the existence of two distinct coherent businesses which would be more effectively managed as such, rather than brigaded together in an unwieldy and illogical combine which throws up management problems beyond the capacity of a single Chairman and Board to handle;

*W. - see for 4/5 W's.*

(b) it would thus be consistent with our general approach to de-merging and would not frustrate the introduction of private capital into Land Rover and Unipart in 1983 as envisaged by BL;

(c) it would reduce the risk that collapse in one part of the Group would bring down other parts (for instance a collapse in Cars producing financial problems which brought down the Leyland Group side);

(d) it would also insulate the businesses in the Group from the spread of labour relations problems from one part to another (for example Land Rover is still part of the



same bargaining group as volume cars).

(e) it would lower the public profile of BL, both by disassociating parts of the present group from the BL name and by "depersonalising" its leadership;

(f) it would help to make the best use of the management and Board resources available and also make it unnecessary to search for an adequate replacement for Sir Michael, which would, at the very least, be extremely difficult.

4 I believe these are important benefits. Moreover, I think we should find it very hard to reject the unanimous advice of a notably strong and independent non-Executive Board who might normally be expected to preserve rather than divide their empire.

5 There are, however, some risks and disadvantages:

(1) the split would probably be seen as a politically motivated break-up and as a preliminary to more radical closures. We cannot exclude the possibility of renewed strike action in protest, which could itself lead to permanent closure of the volume cars business. Sir Michael thinks this unlikely.

(2) there are operational and marketing links between the proposed groups which cannot be broken quickly: for

*They are preserving it.*



example there is some joint marketing of cars and Land Rover and some exchanges of components. However, there is no necessity for cars and commercial vehicles to be manufactured within a single group (practice varies in the world vehicle industry), and the operational and marketing links can be continued by contractual arrangement where they are justified.

(3) the split will almost certainly require repayment of some £70m of medium term loan stocks. BL, on Hill Samuel's advice, believe this can be refinanced by the two groups without recourse to the PSBR or to Government guarantee, though at some additional interest cost. Sir Michael is quite willing to accept a requirement that the split should involve no more Government money and no extension of Government guarantees.

(4) there are detailed problems to be resolved in relation to such matters as the remaining private sector shareholders in BL.

6 In my view these risks and disadvantages do not outweigh the potential benefits of the structure Sir Michael proposes.

7 Sir Michael has been pressing for some months for an early reply. The detailed technical arrangements are complex and will

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take a long time to resolve; and if the split is to be made at must be done in good time before Sir Michael himself leaves BL at the end of 1982. He tells me that he will need to make an announcement (for Stock Exchange reasons among others) by about 11 February if the proposal is to proceed, and that he needs a clear month before that to settle immediate details. I propose that, if we decide to agree to his plan, we should ourselves make a Parliamentary Statement at the same time as the Stock Exchange statement, presenting our decision as being in response to an initiative by the BL Board.

✓ 8 I imagine you would feel a discussion would be helpful. You might like to consider whether this would best be handled as hitherto by a restricted group of Ministers, preferably early in the New Year; or whether it should be taken by the E Committee in the middle of January (which is a little late for BL purposes).

9 I am sending copies of this minute and attachment to the Chancellor of the Exchequer, the Secretaries of State for Trade and for Employment, Sir Robert Armstrong and Mr Robin Ibbs.

PJ

P J

22 December 1981

FUTURE ORGANISATION

Objectives

1. To match the key jobs at Board level to the available personnel resources, taking account of the termination of MOE's executive involvement by the end of 1982.
2. To split BL into more manageable units; this is particularly necessary for pay bargaining purposes.
3. To isolate, as far as possible, the effects of a collapse in one of the major parts of the business.
4. To improve the public perception of the company's products by dissociation from the "British Leyland" image.
5. To be consistent with the introduction of private capital into the profitable parts of the business.

Concept

To establish, from the four main businesses which will become legal entities from 1st January 1982, two separate groups (Cars/Unipart and Leyland/Land Rover) which will report separately to the Government and be separately financed - with BL as a whole disappearing completely by the end of 1982. The organisation of these two groups is already reflected broadly in the division of responsibilities at Executive Director level. The announcement of the new organisation would be linked with firm commitment to the subsequent involvement of private equity capital in Land Rover and Unipart.

Timing

With the major determining influences for 1983 and beyond being the 1983 Corporate Plan and the autumn 1982 pay negotiations, it will be important for the new structure and the new Boards to be set up in time to handle these issues, even if the BL grouping is nominally retained until 31st December 1982. Terms of reference for the Boards of the new companies will need to be agreed with the Government before the main part of the Corporate Plan process begins during the summer. Preparatory work on the legal, financial and personnel implications must therefore begin very soon in order to launch the new organisation in mid-1982; and decisions currently being taken in these areas need to take account of the proposals, which requires wider knowledge of them than exists at present.

Composition of new Boards

Proposals for the composition of the new Boards will be put to the Government after consultation with existing Board members, who could form the nucleus of the two Boards. It is envisaged that both Boards would be headed by a non-executive Chairman and have a majority of non-executive members. Existing executive personnel resources are likely to be adequate to fill the senior posts in the two companies, with the possible exception of certain corporate service functions.

### Corporate structure

The split of BL into two groups could be achieved technically in a variety of ways. New holding companies could be created or existing ones used. At present BL has one subsidiary, BLMC, which is the parent of all the other BL companies - either directly or indirectly.

The two companies have the following major constraints on their flexibility for restructuring:-

1. Private shareholders

BL has some 80,000 private shareholders. Any proposals to restructure the group would have to be approved by shareholders in general meeting. There would appear to be no reason why the DOI should not vote on such a resolution.

2. Unsecured Loan Stocks and Swiss Franc Bonds

Any significant restructuring of the business of BLMC Limited would require the relaxation of the restrictions contained in the Trust Deeds for the Unsecured Loan Stocks. Such proposals would require approval by a majority of three fourths in respect of each Loan Stock. This approval would probably only be forthcoming in exchange for repayment at par costing £63 million. Premature repayment of the Loan Stocks would probably also trigger repayment clauses in other loans totalling £24 million.

3. Borrowings

Most of the UK borrowings of the BL group have been made to BLMC (for technical reasons relating to the Trust Deed). Breaking BL into two groups would require renegotiation of all these borrowings, probably involving repayment and replacement by new loans and short term facilities with appropriate HMG assurances.\* Whilst this should be feasible, it will be a very time consuming process.

Subject to removal of the Trust Deed constraints, one way of achieving the split could be for BL Public Limited Company to become the commercial vehicle company and BLMC Limited to become the car company. BL would then sell BLMC to the DOI. Appropriate transfers of subsidiaries between the two would be necessary, and the names of the companies could be changed. This solution would avoid the need to buy out the minority shareholders of BL, which would cost £12.8 million.

\*This re-negotiation would have to overcome any disposal constraints in the medium-term loan agreements currently under negotiation.

### Implications for injection of private sector capital into Land Rover and Unipart

Creation of two groups should not materially alter the saleability of shares in Land Rover and Unipart, and indeed the financial actions described above would help to relax the constraints on major privatisation. Areas of additional, but not major, concern might include:-

- a. Relative 'newness' of new holding companies (no 'track record') but getting rid of BL could be regarded as a plus.
- b. 'One over two' structure looks difficult to work especially in the context of partial privatisation - but both groups would have flexibility to develop a more balanced structure if necessary.
- c. The 'intertrading' issues (see below) between Land Rover and the car companies would have to be settled by mid-1982 to the extent that they required a focal point for resolution.

### Intertrading issues

It is not possible in this short paper to set out the intertrading issues in any detail but among the items where long term trading relationships exist are the following:-

1. Land Rover supply of engines and gearboxes to BL Cars.
2. BL Cars supply of castings and components for Land Rover, Range Rover, Freight Rover and Leyland Trucks.
3. Common franchising arrangements in the UK for BL Cars and the Land Rover group.
4. Sale of Land Rover and Truck products to BL Cars overseas subsidiaries in Europe, Australia and South Africa.
5. Unipart handles all Land Rover, Range Rover and Freight Rover parts sales worldwide.

Many of the above should be capable of being established on an 'arms length' basis, with the remainder being replaced by entirely new arrangements. In particular, consideration needs to be given to the separation of the Land Rover Group parts business from Unipart.



### Splitting of BL Cars bargaining unit

The new organisation will require the separation of Land Rover Group from the BL Cars bargaining unit. This, together with the similar separation of the Unipart Group, would in any case be desirable to enable private capital to be attracted into these two businesses in 1983. Proposals will be put to the unions during the discussions on the new procedural agreement, with the aim of making the new bargaining units operative before negotiations begin on the next pay round in autumn 1982. Resistance is likely from the unions, who will suspect that splitting the bargaining unit is merely the first step towards selling off Land Rover and other saleable businesses. Transfer of employment contracts from BL Cars to the new companies is already planned for 1st January 1982.

### Common services

#### a. Pensions

All the BL companies employees' are members of BL-wide pension schemes - one for hourly and one for salaried. Division of the schemes into two would present major, but probably not insuperable, actuarial problems. Continuing with a common scheme would not be impossible but would present major practical difficulties relating to policies, negotiations, and trustee board memberships.

#### b. Other corporate companies

BL Technology, BL Systems and Nuffield Press would have to be allocated to one of the two groups (not necessarily the same one) and sell their services to the other. Aveling Barford could remain in the commercial vehicle group until sold or otherwise disposed of. The Swiss finance company, BLIS, would probably be logically put in the cars group. It might sell its administrative services to the commercial vehicles group.

#### c. Corporate staff

Certain specialist services exist at Corporate level (Legal, Tax, Treasury, Insurance, Communications, etc.). Although they could work within one group and sell their services to the other, this is probably not a practical proposition (especially for certain operations such as Treasury) and the services would have to be split. Some loss of key staff is inevitable, as a result, but they could eventually be replaced. Splitting of records would present particular problems. It might be possible for headquarters staff of the two groups to remain in the same building to facilitate continuity, but the desirability of distancing the public images of the two groups needs to be further considered before a decision on this is taken.

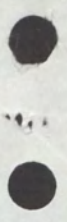
## Alternatives

Judged against the objectives listed at the beginning of this paper, the two-company split has advantages over all the following alternatives:-

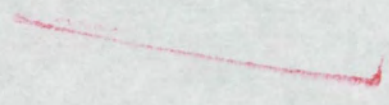
1. Complete split of BL into four companies based on 1.1.82. structure. This would leave four separate companies reporting to the Government, would require additional senior executive resources and would (paradoxically) add to the difficulties of attracting private capital into Unipart, since its operational links with the Cars Group require retention of strong managerial links between the two.
2. Further attrition of BL's corporate strength to a nominal structure over the two (or four) independent businesses, in order to avoid the financial restructuring required by a complete split. This arrangement would not overcome the problem of BL's image or localise the financial consequences of the collapse of a major part of the business; and the position of the new BL Chairman would be untenable because he would be seen publicly as accountable for the company's operations without having any effective control.
3. Maintenance of the present organisation, with the appointment of a new Chairman having some executive responsibilities but delegating considerable authority to the two Executive Directors. However, the present organisation is feasible only as a transitional arrangement because of the incompatibility of meaningful central functions (such as Finance) with full accountability of the two Executive Directors. It also fails, like alternative 2, to meet the objectives of improving product image and further isolating the effects of a catastrophe.
4. Preservation of a unified BL, but with a more complete sub-division into four or more subsidiary companies. This again fails to meet the 'image' and 'localisation of collapse' objectives. In addition, it would no doubt be difficult to secure a Chairman/Chief Executive of the necessary calibre, and the present position of one or both of the Executive Directors would be undermined.

## Further work

This paper has been written without access to or consultation with the bulk of the relevant technical expertise within BL and must therefore be seen as a very preliminary assessment. We urgently need to involve a wider circle of senior staff, in order to identify the problems involved and develop a precise action plan to overcome them. This we cannot do until we know whether the Government supports the concept.



2. 2. DECEMBER





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Secretary of State for Industry

30 December 1981

Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Mike -

BL: FUTURE STRUCTURE

The Secretary of State for Industry wrote to the Prime Minister on 22 December 1981 about BL: Future Structure.

2 I would be grateful if you could classify this minute "Confidential and Personal".

3 Please accept my apologies for any inconvenience caused to you and to the recipients of this letter.

4 I am copying this letter to the Private Secretaries to the Chancellor, Secretaries of State for Trade and Employment, to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely  
Kim Benson

K BENSON  
Private Secretary

Ref: A07024



cc JV  
AD

MR. WHITMORE

BL: Future Structure

The Secretary of State for Industry has sent me a copy of his minute of 22nd December.

2. In paragraph 8 of his minute the Secretary of State raises the question of how this subject should be handled in Ministerial discussion.

3. Though the proposals are important, they do not fundamentally change the relationship between the Government and BL, and they do not appear to carry major financial implications (Sir Michael Edwardes is prepared to accept a requirement that these proposals should involve no more Government money and no expansion of Government guarantees).

4. In my judgment it is not necessary to take this matter in the Ministerial Committee on Economic Strategy (E); it will be sufficient to hold an ad hoc meeting under the Prime Minister's chairmanship, with the Chancellor of the Exchequer, the Secretaries of State for Industry, Trade and Employment and Mr. Ibbs.

RTA

Robert Armstrong

24th December 1981