

PRIME MINISTER

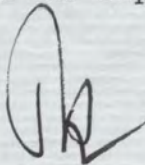
BL's FUTURE STRUCTURE

Here are our comments on Patrick Jenkin's minute of 21 January which encloses draft terms of reference for consultants and draft objectives for BL's business.

1. The terms of reference for consultants (Annex 1) look about right. In particular they raise the question of breaking BL into more than two subsidiary operations. It should be perfectly possible to do this so that there is the maximum flexibility in putting together two or more of these smaller units for a potential buyer, without impairing day-to-day management (which could still be in two major sub-groups, each composing several of the smaller units) in the meantime.
2. We are not, however, happy about the objectives for BL's business. These objectives imply that Edwardes will be allowed to continue trying to make BL as a whole recover, with no urgency about disposal. True, the objectives refer to "the limits on public funding agreed by Government" but that seems too vague. Is Edwardes to understand that the funds at present agreed constitute that limit? Is he under pressure to make major disposals to reduce the risk of those limits being reached and the funds exhausted? If those funds are exhausted, does he assume that he can come back for more?
3. When Robin Ibbs prepared speaking notes for your planned meeting with Edwardes a year ago (his minute of 19 January 1981) he stated the assumed Government objectives for BL. The first page of Robin's minute is attached, with the key sections marked.
4. Instructions to Edwardes to dispose of all BL Group companies only had meaning if a deadline was set, as per Robin's 2(i). But such a deadline implies a clear answer to the question "What if we have not completed the disposals by the deadline?" The implication must be that what has not been disposed of will be liquidated. This may not be made explicit to Edwardes, but has to be faced by the Government.

5. In fact, that planned meeting was handled by Geoffrey and Keith. As I understand it, Edwardes said that such objectives would involve the closure of volume cars. In consequence, those objectives were effectively shelved and the BL Corporate Plan approved.
6. With Edwardes' departure less than a year away and the BL Board presumably set to resign if they are offered unacceptable objectives, it does not seem practicable at this stage to revert to our original aims and try to impose them on the Board. Instead, we will need to think imaginatively about the terms of reference for Edwardes' successor(s). This will mean, once again, taking a view on whether genuine recovery is possible, setting fresh deadlines for disposal or closure where agreed criteria of recovery are not achieved, and perhaps even giving the new Chairmen financial incentives linked to those disposals.
7. The draft objectives on Patrick's minute are therefore simply a fudge of the real problem. That does not matter if we can present them explicitly as objectives which are valid for the remainder of Edwardes' term as Chairman* The danger, in their present form, is that they could, without our realising it, be accepted as an agreement to fudge if necessary beyond Edwardes' term, so that his successor and the other Board members (whoever they may be at that time) start their term with the same conflict between their objectives - as set down in Patrick's draft - and the Government's true objectives which may by then have been almost lost sight of.

I am copying this minute to Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

* IE New Chairmen will require new objectives.

Prime Minister

22 January 1982

(1)

MR SCHOLAR

BL OBJECTIVES

You have the papers and may

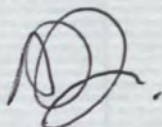
find this note helpful. I have pencilled in a meeting with the Ministers concerned and Robin Ibbs immediately after EX on Monday.

A postscript to our note to the Prime Minister last night:

Agree to this?

MLs 22/1

1. If the Prime Minister agrees that our objective is still disposal, we still have to work out how to impose the objective. We can either have a row with the present Board and find replacements; or we can ensure that we give the right objectives (once we've worked them out) to Edwardes' successor(s), who must be the right people for the job.
2. A row now could precipitate a difficult, leaderless phase. But if we let the study go ahead, as proposed, (even with the objectives modified so that they explicitly apply to Edwardes' remaining 9 months only) there is still a danger that we end up with his nominated successor(s) who then, like Edwardes, threaten to resign when given new and more realistic objectives. A similar difficult, leaderless phase could then ensue, precious months having been wasted in the meantime.
3. If the Prime Minister accepts our line of thinking, and wants to install the right people with the right objectives, Robin Ibbs needs to be told this, so that the study produces not only the answers called for in the agreed remit, but also advice for the Government only on objectives for disposal within stated constraints of time and funding; and on the suitability or otherwise of Edwardes' nominated successor(s) for achieving those objectives. If the people aren't suitable, we will need to start the search for the right ones soon.



ANDREW DUGUID