

Prime Minister (1)



PRIME MINISTER

I see that Sir Austin Bide is only going to BL but that I have agreed the proposals in para 4? MS 29/7

BL

I am grateful for your agreement that the general approach by the BL Board to the succession and privatisation issues described in my minute of 23 July is acceptable. I have also obtained Sir Michael Edwardes' assent to the two amendments which the Chancellor, in his letter to me of 28 July, suggested should be made to the letter which Sir Michael proposes to send me confirming the Board's position on these matters.

2 I have received today from Sir Michael a letter (a copy of which is attached) reporting that Sir Austin Bide and Sir Robert Hunt are ready to take on the non-executive Chairman and Deputy Chairman roles respectively on his departure from BL. This should ensure that the Board's commitment not to seek further funds for BL in addition to those already identified will be durable and unequivocal.

3 While the appointment of a new BL Chairman requires my approval, the actual process of appointment and the terms and conditions involved are a matter for the BL Board. Sir Michael is not therefore seeking my agreement to the £65,000 annual fee which is intended should be offered to Sir Austin Bide. However, remuneration at this level does not seem unreasonable given that he already receives about the same amount as non-executive Chairman of Glaxo. Moreover, I understand that a survey of

For how much time?



directors' remuneration recently carried out by the Charterhouse Group on companies reporting in 1981 shows that the prevailing level of remuneration for part-time chairmen in companies with a turnover in the range of £360 million - £3,460 million was £60,000. BL's turnover is about £3,000 million, and, more importantly, the responsibilities of the Chairman will continue to be arduous. BL would plan to announce the new appointments on 1 September, but they would not be announcing the new Chairman's salary at that time. As BL is a Companies Act company, this would be disclosed in the usual way in their Annual Report and Accounts for 1982.

I should have thought the (n.b.) record was in part on the turnover.

4 If you agree, I now propose to tell Sir Michael Edwardes that I am willing to approve the appointment of Sir Austin Bide as non-executive Chairman, that I am content that Sir Robert Hunt should be appointed Deputy Chairman and that Mr David Andrews and Mr Ray Horrocks should assume their new Chief Executive roles. I would propose to tell him at the same time that his draft letter on the funding and privatisation issues accurately reflects the Government's understanding of the position and provides an acceptable basis for developing BL's 1983 Corporate Plan.

5 I am copying this minute to Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

July 1982

Department of Industry
Ashdown House
123 Victoria Street

TELEPHONE
01-486 6000

35-38 PORTMAN SQUARE

LONDON W1H 0HQ

FROM SIR MICHAEL EDWARDES

The Rt Hon Patrick Jenkin, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

29 July 1982

Alan Patrick

I am pleased to report that I have now agreed with Austin Bide and Bob Hunt that they are ready to take on the non-executive Chairman and Deputy Chairman roles respectively. I will put this (formally) to my Board as soon as I know that you support what we have in mind.

I have talked to Austin on a provisional basis about the terms and conditions of his appointment (and of course about those which flow from it), though these remain to be confirmed by the Board. The intention is that he should be appointed for an initial period of two years. He and I will agree on a phasing programme.

He would remain non-executive Chairman of Glaxo but would be able to devote around 50% of his time to the BL job, with accessibility at virtually all times, but with Bob Hunt providing cover particularly when Austin is abroad. On this basis, the intention is to offer Austin a fee of £65,000 per annum - in line with earnings of part-time Chairmen in other major UK companies.

As you know, the matter of remuneration is left to the Board under our Memorandum of Understanding - though clearly you will want to be aware of our intentions as regards the Chairman's fee. As soon as we have your reaction to this, I will involve my Board and proceed with the settlement of detailed terms with Austin - as well as of course with Bob Hunt - and with David Andrews and Ray Horrocks in their

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The Rt Hon Patrick Jenkin, MP
Secretary of State for Industry

29 July 1982

new Chief Executive roles. We plan to announce the new appointments and the consequential organisational changes on 1 September. We want to separate this from the privatisation and half year issues, which will be dealt with two weeks later.

As regards these related issues of funding and privatisation, I hope we can now finalise the proposed exchange of letters so that we can clear up all the major outstanding issues in the next few days.

Yours sincerely
Michael



Prime Minister

(2)

500 points.

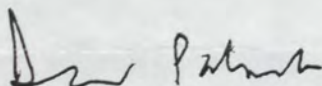
Mts 29/7

Ind Ref.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

28 July 1982



BL

I have seen a copy of your minute of 23 July to the Prime Minister.

I agree that the general approach adopted by the BL Board is satisfactory. Subject to two small additions, mentioned below, I agree that the draft statements meet our requirements on privatisation and funding, provided that Sir Austin Bide, or failing him, one of the existing non-executive directors, agrees to serve as Chairman.

My two additions relate to points 4 and 5 of BL's assumptions. BL assume that the Government does not proceed with total disposal of Land Rover in 1983. This is correct provided that satisfactory progress is made towards the agreed alternative privatisation strategy. If not I think that we must retain the right to revert to our original proposals on Land Rover. Accordingly I would like assumption 4 to read:

"that the Government does not proceed with its proposal for the total disposal of Land Rover in 1983 while satisfactory progress is being made towards the achievement of (a) and (b) below".

My second proposal concerns assumption 5, which is that the Government agrees to provide the £150M equity foreseen in previous Plans for the post March 1983 period, but abated by estimated proceeds from minority sales, subject to Government approval of the 1983 Corporate Plan. As you know, BL has so far not required, as quickly as originally envisaged, the initial £990M to fulfil previous Plans; and there is a strong possibility that £100M of this amount will slip into the next financial year. I hope that it

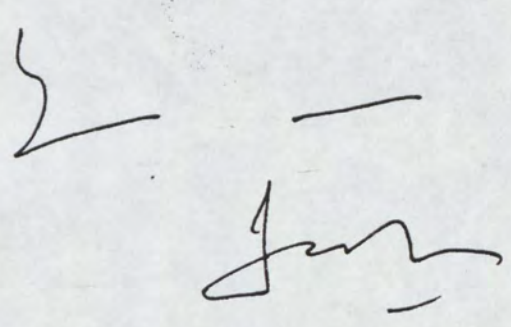


may be possible to achieve the 1983 Corporate Plan without putting in as much as another £150M, abated by minority sale proceeds. I would like to register this point now and so would propose that assumption 5 reads as follows:

"that, subject to approval of the 1983 Corporate Plan, the Government agrees to provide, in addition to the £990M already committed, such part of the £150m equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests (see (a) and (b) below) and which can be demonstrated to be needed to fulfil the Plan".

I am copying this letter to the Prime Minister, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE



[Faint red handwritten mark]

29 JUL 1982

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SECRET AND PERSONAL

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10 DOWNING STREET

From the Private Secretary

26 July 1982

Your Secretary of State minuted the Prime Minister on 23 July about the next steps in relation to BL.

The Prime Minister considers that the general approach by the BL Board to the matters described in your Secretary of State's minute is acceptable.

I am sending copies of this letter to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

SECRET AND PERSONAL



PRIME MINISTER

BL

Respectfully -
Yes.
not
Prime Minister ①
Agree this general approach?
MUS 23/7

Further to my minute of 9 July, I have now received from the BL Board the promised draft formal commitment on collaboration and privatisation, a copy of which is attached.

2 As you will see, it consists of two parts, namely a draft letter from Sir Michael Edwardes conveying a formal and confidential undertaking to the Government on these matters, and a draft public statement which he would propose to make at the time of the announcement of BL's half-yearly results on 15 September.

3 As you will see is implied in assumption 1 on page 1 of the draft, he has not so far obtained the agreement of Sir Austin Bide to serve, if required, as the non-executive Chairman of BL after his departure; Sir Austin has asked for more time to consider this, and will give his answer in the last week of July. In other respects, however, I think that the draft statements go a long way to meeting our requirements both on privatisation and the end of Government funding. Assumption 5 and objective (a) on page 2 of the draft state clearly that the £150m Government funding requirement envisaged in the last two Corporate Plans will be the last, that there will be no further need for funds for operation of the business after the 1983-84 financial year, and that the £150m itself is likely to be significantly reduced by proceeds from the sale of minority interests.



4 I note your comments (conveyed in your Private Secretary's letter of 12 July) that there is an inconsistency between the assertion that this will be the last injection of funds, and the continuance of the Varley-Marshall-Joseph assurances to creditors, but I do not think that this is so. So long as the business does not collapse, the assurances will not be triggered; but any action in the near future on our part to remove the assurances might actually bring about a collapse. Assuming that the business continues, the Board have given a commitment that they will be seeking to reduce the scope of the assurances as far as possible. With regard to your other point about "reconstruction" of the balance sheet, I think that paragraph (ii) on page 3 of the draft makes it clear that no net cash outflow for the Government would be involved as the outlay would be recovered by the proceeds of disposal, and that in any case this funding would be entirely at the option of the Government.

5 With regard to collaboration and privatisation, you will see that Michael Edwardes and his Board are prepared to go much further in the confidential statement (objective (b) on page 3 of the draft) than in the public statement. This^{is} because of the commercial sensitivity of the issues from the point of view of BL's dealers, bankers and potential collaborators.

6 I shall let you know as soon as I have any further news from Michael Edwardes about Sir Austin Bide's position. Meanwhile, I

SECRET AND PERSONAL



hope that you and other colleagues will be able to agree that the general approach by the BL Board to all these matters is acceptable.

7 I am copying this minute to Geoffrey Howe, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

PJ

P J

23 July 1982

Department of Industry
Ashdown House
123 Victoria Street

DRAFT LETTER FROM SIR MICHAEL EDWARDES

LETTER TO THE RT HON PATRICK JENKIN, MP
SECRETARY OF STATE FOR INDUSTRY

CONFIDENTIAL

Further to the very constructive meeting which you had with the BL Board on 6 July, it may be helpful if I confirm the Board's position on the matters we discussed.

With regard to privatisation, I confirm that it is the Board's objective to return BL in whole, and probably by instalments, to the private sector as soon as practicable. We acknowledge the wish of Government to show early and visible progress to this end, consistent with maintaining the recovery strategy in the Corporate Plan.

Prior to the meeting, we had tabled for illustrative purposes a profile indicating one of the possible routes to full privatisation which will be examined in the privatisation strategy which is being developed for the 1983 Corporate Plan. Until the necessary studies for the 1983 Plan have been completed, it would be unproductive to try to set out the other available options for achieving a return to the private sector or to be more specific about the individual actions which will comprise each option. However, the Board believes that it can offer a broad commitment to the Government on certain issues, based on the following assumptions:-

- 1 that the Board will be able to propose one of the present non-executive directors as Chairman (we aim to respond to you on this during July);

- 2 that the Government consequently approves the Board's proposals for succession which provide for the maximum continuity at Board and top management levels;

- 3 that an objective on the lines set out in my second paragraph above will be agreed between the Board, the new Chairman and the Government;
- 4 that the Government does not proceed with its proposal for the total disposal of Land Rover in 1983;
- 5 that, subject to approval of the 1983 Corporate Plan, the Government agrees to provide, in addition to the £990m already committed, such part of the £150m equity funding envisaged in previous Plans for the period after March 1983 as is not offset by estimated proceeds from the sale of minority interests (see (a) and (b) below); and
- 6 that the major financial targets in the current Corporate Plan are broadly achieved each year, as is expected to be the case for 1982 - non-achievement is of course covered by my letter of 26th January 1981 to your predecessor (copy attached).

On these assumptions, the Board commits itself firmly to the following specific objectives within the overall objective enunciated above:-

- (a) To limit BL's requirement for Government funding to the amounts referred to in 5 above. This will mean that the final £150m funding requirement envisaged in previous Plans should be significantly reduced and that, subject to receipt of the balance of the funds already approved by the Government, there will be no further Government funding requirement for maintenance of the business after the financial year beginning in April 1983. The only circumstances in which Government funds might be needed thereafter would be:-

- i. In the event of a total or partial collapse of the business, the Varley/Marshall/Joseph assurances that the Government will meet BL's obligations would be triggered; the Board sees

no possibility of the Government being relieved of these assurances until full privatisation is complete, but the Board will explore the practicality of reducing the scope of the assurances, e.g. the possibility that in conjunction with the sale of minority equity stakes certain subsidiaries might be able to borrow externally on their own account without the comfort of the assurances.

- ii We have an unacceptable balance sheet for private sector purposes, and as we privatise we will need to remedy the position for those companies taking on outside shareholders or joining the private sector. There might be a need for Government finance immediately prior to privatisation, but the aim would be at least to recover any outlay by the proceeds of disposal.

- (b) To devise a strategy for full privatisation in the 1983 Corporate Plan which offers visible progress within the next two years towards privatisation by such means as the sale of minority equity stakes in BL's more profitable businesses; which builds on existing collaborative arrangements (such as Austin Rover/Honda) and seeks new opportunities for collaboration (such as the informal approaches we have made to International Harvester, DAF and more recently Volvo about links with our commercial vehicles business) in order to make BL's constituent businesses

more attractive for ultimate privatisation; and which maps out possible routes for the full return of all parts of BL to private ownership by the late 1980's, setting target dates wherever possible.

- (c) To make a public statement this autumn (if possible at the press conference for BL's half-year results on 15 September) underlining the Board's commitment to privatisation. A draft of such a statement is attached.

RLH

15.7.82

FOR HALF YEAR STATEMENT

PRIVATISATION

As I said in my report to shareholders in March of this year, the division of BL into separate operating units increases operating efficiency and also makes it easier to inject private sector funds into some or all of these businesses when they reach a commercially attractive stage. The Board now feels that with the continuing progress being made towards profitability, it is realistic to seek private sector funds over the next two years for BL's mainstream businesses. The Board sees these developments as the first step towards an eventual return of BL to private ownership.

Private sector funds, coupled with the continuing progress of the businesses, would, the Board believes, enable it to bring forward the time when the Company can sustain itself without Government funding. The 1983 Corporate Plan will be submitted on this basis. The Board envisages that the final £150m of Government funding required in the 1982 Plan will be significantly reduced, thus bringing this funding to an end earlier than expected in previous Corporate Plans.

TELEPHONE
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RECEIVED IN
25
SECRETARY OF STATE FOR INDUSTRY'S OFFICE

35-38 PORTMAN SQUARE

LONDON W1H 0BN

FROM SIR MICHAEL EDWARDES

26th January 1981

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

TO Mr Bowler	COPIES TO
FOR APPROVAL	PERM
DRAFT REPLY (IF	PJMM
APPROPRIATE)	Steele
PLEASE BY:	Mr Steele
<u>Noon</u>	Mr Mountfield
2/2/81.	

Her Secretary of State,

The Board believes that BL's 1981 Corporate Plan offers - subject to the risks and qualifications which are made clear in the Plan - the best feasible prospect of bringing about the recovery of the business.

As you know, recovery will take time, and during this period the risks to the survival of whole sections of the business will remain considerable. While it should be possible for the business to accommodate the normal trading fluctuations within the framework of the Plan, the achievement of competitive cost levels is essential to ensure our survival. As we have made clear in recent weeks, even the success of a particular new model such as Metro cannot allow us to relax the strict discipline which has to be exercised on all aspects of our cost structure.

Government approval of our Plan and funding request would not change this situation, because it is our own performance in the external competitive environment which fundamentally determines whether or not the business can survive. Dealers and customers would simply walk away from the company if there were a major strike. Moreover, they would desert us more gradually, but no less surely, if we allowed our costs to rise to uncompetitive levels - or indeed if it seemed to them that the necessary funds would not be sought from Government.

Continued

The Rt.Hon. Sir Keith Joseph, Bt,MP,
Secretary of State for Industry.

26th January 1981

Page 2.

Circumstances may arise in which, through a substantial deviation in performance or an appreciable departure from the assumptions underlying it, the Corporate Plan is clearly not being achieved and it appears impossible to bring about recovery within the timescale envisaged. This could arise for external or internal reasons; an example would be a major strike which damaged or appeared certain to damage any substantial sector of the business. In such circumstances the Board would, in accordance with section 1 of the Plan, very quickly initiate a review (in consultation with the Government) of the Plan of the relevant business group, with consequent implications for continued Government funding.

The Board will, of course, be monitoring progress under the Plan regularly in the normal course of its business and in the context of the annual updating of the Plan towards the end of 1981.

In our recent discussions on the Corporate Plan, you also asked me to confirm to you the views of the BL Board on the importance of collaboration in our recovery strategy for each of our main business groups.

The Board sees collaboration with other manufacturers as an important part of its strategy for recovery and for reducing and eventually removing dependence on Government support. This might take the form of collaborations on major components or on particular parts of the business; but the Board would also welcome, and actively seeks, a relationship of a more comprehensive kind which might well grow out of such collaboration.

*Yours sincerely,
Richard Lawson.*



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23 JUL 1982