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Prime Minister <sup>(2)</sup>

Norman Lamont's letter is intended to record be formal position, but sometime soon there will have to be some tough talking to show who is boss.

16 November 1984

MR TURNBULL

AT 14/4

Norman's letter to Austin Bide covers the ground in a workmanlike but ponderous manner.

The BL Board are behaving with all the moral indignation you would expect from businessmen running a loss-making business that is bankrupt, and who believe that everyone is to blame but themselves.

The BL Board's stance of studied deference of the tiny minority of shareholders is a sham, as Norman points out. Their dogged resistance to privatising some parts of the business separately will lose more jobs and cost more money than had they got on with it when first requested.

Norman is right to seek a limitation in the Varley/Marshall assurances, right to insist on privatisation as a prime objective - of parts, if not of the whole - and right to demand retention of the corporate planning process.

? The argument that they would be forced to sell assets at "less than a commercially justifiable value"? could have been dealt with more forthrightly. In the past, when the Board have refused to sell profitable businesses within the BL stable, they have resisted on the grounds that they would

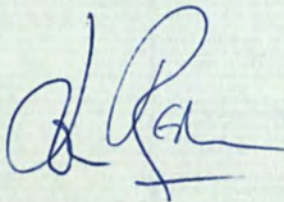
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get more money later. What has often happened is that those businesses have then dived into loss, and required more and more public funds. It is to prevent this happening again that the businesses should now be privatised.

Conclusion

The arguments in the letter are sensible and sound, but the tone is still cautious. We must go on telling the BL Board the straight truth: they are the taxpayers' agents; without the taxpayer their united BL would be in the hands of the Receiver; and after years of action and taxpayers' money, BL is little nearer as a whole to good profits and success than it was when they began. This would normally be a case for changing the Board.



JOHN REDWOOD

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15 November 1984

*Norman Lamont*

#### BL/GOVERNMENT RELATIONS

I am replying in Norman Tebbit's absence to your letter of 17 August.

I agree that the Memorandum of Understanding (MoU) between the Board and the Secretary of State has in general worked well. I particularly value its flexibility, which enables most issues between us to be settled in a pragmatic fashion. I agree that it would be useful to both sides to clarify the mutual understanding of the roles which the Board and Government have under the MoU. You raise a number of points in your letter, which are dealt with separately below.

#### CORPORATE PLAN

You suggest that we should move away from the present system under which the Board submits an annual Corporate Plan for the Government's approval. The Corporate Plan process is in fact a well-established one for publicly owned businesses, and I can see nothing in the circumstances of BL to justify an exception. Only last year, the Public Accounts Committee, in an examination of the monitoring of BL, broadly endorsed the procedure and the way it is carried out.

#### FORMAL DUTIES OF THE BOARD

Your statement of the law as it affects the formal duties of the Board is of course incontrovertible: however, as a basis for defining the relationship between us I do not believe it is quite

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adequate. The Government not only own 99.7 per cent of the shares in BL, but also effectively guarantee through the Varley-Marshall assurances the continuation of the business. This places upon the Government an obligation to be satisfied that your Corporate Plan incorporates acceptable decisions on investment as well as on progress towards privatisation. I do not think that a commercial holding company in the same relation to BL as is the Government would give the Board absolute discretion to take decisions without reference back, nor I am sure would the Board expect it. The MoU recognises this by providing that the Corporate Plan itself and major investment projects require the Secretary of State's approval. While it is not the Government's intention to "second-guess" the Board's commercial judgement, there may be occasions when the Government's wider interests mean that the views of the Board and the Government will not coincide. In that event, we obviously could not accept that the MoU should be so interpreted as to give automatic precedence to the views of the Board. Rather, I hope that we will continue, as in the past, to discuss the issues involved frankly and to agree, in the light of circumstances, the best way forward.

#### OBJECTIVES

On the revised objective which you propose, I welcome the increased emphasis on privatisation as the Board's overriding objective. However, both I and my colleagues think it is unfortunate that in the process the reference to the need to pursue a targeted programme of profitability improvement has been deleted. I should therefore be grateful if you would insert a second objective along the lines of what is currently the third objective.

#### OWNERSHIP OF PRIVATISED BL BUSINESSES

On the question of foreign ownership or control of privatised BL businesses, the Government would, other things being equal, naturally wish privatised businesses to remain, at least initially, in British hands. But the arguments will not always be as clear-cut as they were in the case of Jaguar. It is not obvious that a continuation of British ownership will necessarily be the best way of ensuring the future of all the businesses within BL, and it could be that a determination to retain British ownership would hamper attempts to privatise some of the businesses. Except, therefore, where there are special circumstances (as in the case of Jaguar) we would not wish our general preference for British ownership to be regarded as an overwhelming consideration, especially if insisting on it would stand in the way of privatisation.



On the question you raise about the retention by BL of a minority stake in privatised businesses, the Government recognise that in some cases the links (whether trading, marketing or technical) with companies remaining within BL may be so substantial as to justify a residual BL minority holding. We will however generally start from a presumption that the benefits of privatisation to the privatised company will be most completely felt if there is no residual publicly owned stake.

#### VARLEY-MARSHALL

On the Varley-Marshall assurances, no Government could contemplate with equanimity a position in which large contingent liabilities were allowed to build up without limits on either extent or time. The Government's liabilities will of course cease once all the businesses are privatised. Until then, it is only natural that the Government should wish to limit both its overall exposure under the assurances and the risk that the assurances will be called. We recognise that there is no prospect of withdrawing or substantially modifying the assurances in the immediate future, but as the company's performance improves we will continue to aim at this, even before complete privatisation is achieved, if it can be done without damaging the company or jeopardising the privatisation programme. One way of doing this might be to distinguish between existing borrowings of the company, which would continue to be covered by the assurances, and future borrowings, which might be sought on BL's own surety. I should be grateful if, either when you submit the 1985 Corporate Plan or within a month thereafter, you would let me have the Board's view on the feasibility of this suggestion. In the meantime, the Government believe that the company's financial objective should contain agreed limits on BL's borrowings so as to maintain control on at least one component of the Government's contingent liability; and discussions about this are in train.

#### DISPOSALS

You also raise the question of sales of parts of BL being accompanied by a "dowry". Naturally this is not something the Government wish to encourage. But it is certainly conceivable that the benefits to BL of being rid of a troublesome business which could do better elsewhere would outweigh the once-off financial loss, and make sense (just as you have already sold some of your) loss-making peripheral businesses at a substantial discount on book value.

IND PA  
PT 8 BL



Similar considerations apply to the idea of selling businesses at what you term "less than a commercially justifiable value" - by which I take you to mean selling at a particular time even when you believe that a sale at a later date would yield a higher price. There can be cases when uncertainties about the future make an earlier sale preferable, even at the cost of giving up the prospect of higher proceeds at a later date. It is impossible to set out in advance guidelines in this area: each case will have to be judged at the time on its merits.

**MINORITY SHAREHOLDERS**

Finally, I must tell you that the option of buying out the remaining minority shareholders is extremely unattractive to the Government. I am advised that neither of the procedures available under the 1948 Companies Act would be secure in the face of opposition or apathy from the minority; and the Government would clearly wish to avoid, if at all possible, new legislation. Consequently, this option is one that we could only consider, and even then without commitment, if it was manifestly and incontrovertibly clear that the existence of the minority was impeding either privatisation or BL's return to viability or both.

*I am in a hurry  
yours  
Norman*

NORMAN LAMONT



15 NOV 1984