

SECRET

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12

PRIME MINISTER

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ROVER GROUP

Leyland Bus

The priority must be to sell this business as soon as possible, at the least political cost, provided the buyer can demonstrate a viable future. Last year it lost £26m before interest and tax, and consumed £31m of cash. This year to the end of May it has lost only £6m, but has still consumed £23m of cash. For so long as it remains within BL, these sort of losses seem likely to continue.

None of the bids are in any way attractive: according to BL, the management buy-out (MBO) offer would cost BL £9m, the Aveling Barford one £10m, and the Laird Group bid £27m. Given the complexity of making comparisons, I would not be surprised that with different assumptions/interpretations if this ranking were reversed. Certainly superficially, some of the terms of the MBO bid seem onerous, eg a 10-year undertaking by BL to pay the MBO at least £2½m commission annually on part sales.

However, the numbers are not really important, the real difficulty is the Manchester PTE involvement in the MBO bid. This is through an intermediary organisation called Charterplan Holidays Ltd, which the PTE appear to control (surprisingly, such involvement is within their vires). The MBO bid will inevitably have widespread public and political support but Labour could capitalise on the sale by saying that they were prepared to support British industry when the Conservative Government were not. There are grounds for hoping that the PTE might not wish to publicise its labyrinthine involvement in Charterplan: Charterplan's results are not consolidated into the PTE's accounts and, contrary to its name, Charterplan is basically a company in

SECRET

the capitalist business of leasing. Nevertheless, the temptation to go public will be overwhelming.

MME reference?

The Laird proposal may not be quite as bad as BL's financial comparison suggests, and it is the only one that offers the sensible restructuring for which the bus industry is crying out. If it were thought worth pursuing, Barings should certainly be asked to double check BL's figuring. Aveling Barford on the other hand, offers all the pitfalls of the old GM deal, only worse!

But Leyland Bus is not hard lover.

The decision over PTE involvement needs to be faced now: it will leak out and if this would cause the decision to be reversed, it would be better to have ruled it out from the start (particularly as otherwise we would be blamed for any additional redundancies). On balance, we believe it would be better to reject the present MBO bid, but to give them the opportunity of making a renewed bid purely on the basis of private sector funding. Paul Channon could announce that unless they had come up with such a package within, say, a month, then the business would be sold to the Laird Group.

Unipart

The Charterhouse bid for Unipart is the one we started last year, when both BL and DTI officials thought it couldn't be done. The price offered is a fair one, and is very close to the Government's merchant bankers valuation of the business made in rather more favourable times for Unipart than today. Although an odd thing to privatise, Unipart privatisation has been part of BL's privatisation plans for many years, and it would be a useful success for the privatisation programme overall.

[You might also like to know that a similar buy-out proposal has been launched for one of British Steel's phoenix companies which the Government has long promised to return

to the private sector, but which BSC has so far successfully evaded.]

Austin Rover

The appalling results of ARG are no surprise. Not only is it forecasting to lose £89m this year, but in the first 5 months it has consumed £173m of cash, only £49m of which has gone on capital expenditure. For BL as a whole, the £680m borrowings limit agreed just a year ago has disintegrated and current borrowings are £860m.

There is nothing that Graham Day can do about what has passed, but it is essential that he put an end to the old make-believe Corporate Plans and comes forward with a credible plan of action. His operational audit team should be reporting very shortly, and he will no doubt want to discuss his new plans when he sees you on 28 July. (Peter Morrison and Paul Channon will also be attending.)

Against this backdrop, it is surely wrong to circumscribe the talks with Honda. Clearly any decision must be for Government, but it is a decision that must be taken in the light of an overall coherent strategy, reflecting what is likely to happen to Austin Rover over the next 10 years with and without Honda. It may be that this argues for Honda taking only a minority stake, but it is equally possible that the prospect of trying to contain ARG's losses without a larger Honda relationship may be just too horrific to contemplate.

Leyland Trucks

As anticipated, DAF are only interested in a bilateral discussion with Leyland Trucks. This is encouraging because it shows that they are more interested in achieving a commercially sensible deal than in some mega-deal to secure

SECRET

- 4 -

more public sector funding. A two-way rationalisation with the ultimate flotation of the Daf company is feasible, and is well worth pursuing.

It would be very sensible, if Bedford go through with their closure, for Leyland to pick up what business it can. It makes commercial sense for Leyland; it maintains an important defence capability; and it would be churlish not to try and rescue this segment of the business, possibly saving some jobs, for purely doctrinaire reasons.

Peter Warry

PETER WARRY

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