

CCB/JP

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PRIME MINISTER

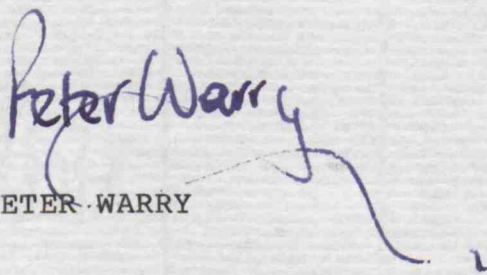
22 July 1986

LEYLAND BUS

The only objection to the management buy-out (MBO) offer has been the PTE involvement. If this can be removed by replacing it with more reputable finance then this is excellent news: it is only surprising that more concerted attempts to achieve this were not tried earlier.

Even if the finance cannot be absolutely tied up immediately, the sale could still proceed if the MBO undertook to pay the sum to BL in deferred instalments. (This is not dissimilar to the Aveling Barford proposal). Provided that such an approach does not substantially reduce the net present value of the MBO offer it ought still be acceptable to both the BL Board and HMG.

Provided the merchant bankers can assure HMG that the MBO proposal is viable then the sale should proceed.

  
PETER WARRY

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CG/BIUP



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Secretary of State for Trade and Industry

PS/

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22 July 1986

David Norgrove Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear David,*

**ROVER GROUP : LEYLAND BUS**

We have discussed the difficulties created by the level of support from the Greater Manchester PTE. These have now been resolved and are referred to briefly in paragraph 9 of the attached draft paper for MISC 126.

It also became clear in discussions between my Secretary of State and the Rover Group Board that RG had serious reservations about the alternative deal with Aveling Barford (AB) and that the chances of a Board recommendation in its favour were remote. These doubts stem from RG's belief that AB is less well-equipped to run a bus business than the existing management team and also because all the AB consideration would be deferred. (RG are still suffering from AB's reluctance to honour commitments to similar deferred arrangements agreed for the purchase from BL of the original construction equipment business in 1983).

Given the difficulties concerning the involvement by the Greater Manchester PTE, the RG Board decided to carry out urgent discussions with the MBO on the possibility of developing alternative financing proposals. Events have moved rapidly and, following discussions between RG, the MBO and Bankers Trust throughout today a new financial structure for the MBO has been agreed in principle. Bankers Trust replaces all of the £13m funding originally to have been provided by Charterplan Holidays (GMPTE) and the British Linen Bank. Details of the revised structure are attached.

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The RG Board have now made a formal recommendation to my Secretary of State in favour of this revised MBO bid. In the light of these changed circumstances my Secretary of State believes that the MBO bid in its substantially revised form is much the best of the available options and should be acceptable in principle to the Government.

I am copying this letter and enclosure to Private Secretaries of the Chancellor of the Exchequer, the Lord President, Chancellor of the Duchy of Lancaster, Secretary of State for the Environment and the Chief Whip.

*Yours ever*

*John Gogg*

J F MOGG  
Private Secretary

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ANNEX D

LEYLAND BUS : FINANCIAL STRUCTURE OF PROPOSED  
MANAGEMENT BUY OUT TEAM COMPANY (MBTCo)

	<u>MBTCo</u> <u>£'000</u>	<u>% of</u> <u>Total</u>
Share Capital Structure:		
Management	150	60-70
Bankers' Trust <sup>1</sup>	32-38	15
Employees and Others (possibly via Unity Trust) <sup>2</sup>	32-62	15-25
	<hr/>	<hr/>
	214-250	100
Bankers' Trust Secured Loan	12,962-12,968	
	<hr/>	
	13,182-13,212	
	<hr/>	

Notes:

- 1 Bankers' Trust have agreed to provide £13 million in the form of equity (15 per cent of total equity) and loans secured on the commission payable from Leyland Parts to Leyland Bus and by a mortgage over the shares in Leyland Parts.
- 2 Unity Trust is not yet committed to this shareholding though preliminary discussions have been held.

Lancashire Enterprises Ltd is also a possible provider of capital but is not committed.





PS/ Secretary of State for Trade and Industry  
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21 July 1986

David Norgrove Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Dear David,

**ROVER GROUP : LEYLAND BUS**

As we discussed last Friday, RG were told, informally, that financial backing linked to the Greater Manchester PTE for the Leyland Bus MBO was unlikely to be acceptable to Ministers. This morning Sir Robert Hunt, the RG Deputy Chairman, came to see my Secretary of State to report the subsequent developments.

Alternative financing proposals for the Management Buyout (MBO) are being developed: whether they can be put in place will not be known with certainty until the end of the week. By tomorrow evening there will be a much higher level of confidence about the alternative finance. The new arrangements involve an (as yet unnamed) UK subsidiary of a US bank. This more conventional finance would appear to go a long way towards meeting the objections that Ministers had to the MBO bid.

There was also further discussion of the Aveling Barford (AB) bid. RG are, it seems, very strongly opposed to such a deal and my Secretary of State thinks that a Board recommendation in its favour is most unlikely. RG have had a very difficult commercial relationship with AB since selling their present business to them in December 1983. They have found that AB seek every opportunity to delay and minimize payments and exploit every contractual avenue for this purpose. When RG threatened court action over default there were counter-threats of litigation in the US Courts. The RG Board are also known to think that the MBO are better placed than AB to run the bus business.

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My Secretary of State has explained to RG the political imperative of making a statement about Leyland Bus before the Recess. They do not consider that a statement identifying the MBO as the preferred bidder would weaken their negotiating position. We shall, of course, need to avoid implying that the financing was more certain than it is. Nor should we announce that, at this stage, other bids have been rejected.

My Secretary of State hopes to circulate a paper for MISC 126 tomorrow afternoon and give an oral account at the next day meeting.

I am copying this letter to Tony Kuczys (HM Treasury).

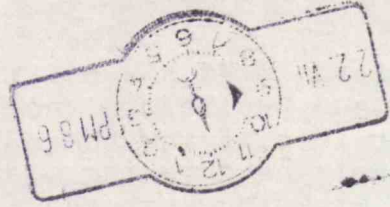
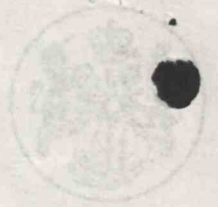
*Yours ever*

*John Gagg*

J F MOGG  
Private Secretary

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EXHIBITION





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My ref:

Your ref:

The Rt Hon Paul Channon MP  
Department of Trade and Industry  
Victoria Street  
LONDON  
SW1

July 1986

*Dear Paul*

LEYLAND BUS

I have looked further into the question we discussed about the powers of the Greater Manchester PTE in relation to Charterplan Holidays Ltd.

I had thought that what was at issue was the power of local authorities generally, including the Greater Manchester Passenger Transport Authority, to undertake activities, but I am advised that it is rather a question of the powers of the PTE as a statutory corporation which is important here. I attach a note which sets this out clearly.

As we discussed, though, whatever the present legal position, it seems no less undesirable for a PTE to have these powers than it does for local authorities generally. Whether we should take any action to stop it should depend on how much of this sort of thing goes on. This is something we may need to pursue with John Moore at a later stage.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, and Norman Tebbit.

A handwritten signature in dark ink, appearing to read "Nicholas Ridley".

A handwritten signature in dark ink, appearing to read "Nigel Lawson".

NICHOLAS RIDLEY

## EYLAND BUS

1. This note considers the powers of the PTE as a statutory corporation and the memorandum and articles of Charterplan.

2. Section 10 of the Transport Act 1968 provides Passenger Transport Executives (PTEs) with a very wide range of powers, including powers to :-

- (a) "construct, manufacture, produce, purchase, maintain and repair anything required for the purpose of their business" (s.10(1)(xxiv))
- (b) "invest any sums which are not immediately required by them for the purpose of their business" (s.10(1)(xxvii))
- (c) "do all other things which in their opinion are necessary to facilitate the proper carrying on of their business" (s.10(1)(xxxii)).

3. In particular section 10(1)(xix) provides that a PTE may, "for the purposes of its business, form promote and assist, or join with any other person in forming, promoting and assisting, a company for carrying on any activities which the Executive have power to carry on, and, where that company is a subsidiary of the Executive, to transfer to that company any part of the undertaking or property of the Executive, and to subscribe for or acquire by agreement any securities of any body corporate."

4. Charterplan Holidays Ltd clearly falls within the power in paragraph 3 above. The activities of Charterplan itself are governed by its own memorandum and articles which no doubt contain wide powers to invest etc. The extent to which the PTE backs Charterplan in its proposals is governed by its own powers but these appear to be wide enough to cover investment in a company manufacturing buses.

5. Consequently on the information available there are no grounds for advising that what is proposed is illegal.

6. Note that

7. It is assumed that the GMPTE has not got far with implementing the provisions of the Transport Act 1985. Under that Act the GMPTE is obliged to form a company for the purposes of exercising their powers under section 10 of the 1968 Act and for the purposes of carrying on any activities which appear to the Executive to be incidental to or connected with it powers of which are "capable of being conveniently carried on in association with any such activities". These powers are even wider. But the Secretary of State for Transport must approve a scheme providing for the transfer to the company of any property, rights or liabilities of the Executive or of any wholly owned subsidiary of theirs which it is appropriate to transfer to that company.