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PS/ Secretary of State for Trade and Industry

4 August 1986

Tim Flesher Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Prime Minister:

Mr Channon + Mr

*Ridley wish to turn down  
the approach by Lancashire  
Enterprises limited to the Management  
buyout of Leyland Bus. Agree?*

*Dear Tim*

*Yes not*

We spoke about the potential involvement of Lancashire Enterprises Limited (LEL) in the management buy-out of Leyland Bus. While this was mentioned as a possibility in Annex D of MISC (86), LEL have now approached the MBO and asked whether they can participate in the financing. I promised to let you have the background to this in view of the potential publicity.

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What is proposed is that LEL should provide a maximum of 15% of the equity (up to £45,000) with the possibility of a loan on commercial terms so far unspecified but certainly no more than £1m, and very possibly less. The loan would be additional to the funding already in place. A broader spread of equity is, in principle, desirable, as is the availability of a further loan, but the analysis of the viability of the MBO, on which the decision of MISC 126 was based, did not take into account this extra finance. The informal advice we have is that while the extra finance does convey an advantage, it is marginal and its absence will not be crucial to the viability of the MBO. Nevertheless, there is little doubt that if we tell MBO that they cannot take up LEL's offer, it will become known, possibly leading to our turning down the involvement of the GMPTE also becoming public. It would then be represented as making the task of the MBO that much more difficult. It will also be contrasted to the Government's behaviour in March, where my Secretary of State made clear in the House that LEL would not be ruled out as a possible source of finance.

On the other hand, the involvement of LEL does mean the MBO accepting finance ultimately provided by a local authority. The ability of local authorities to evade capital controls by acting through companies under their control was criticised in the

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Widdicome Report; Mr Ridley has already responded to this by announcing a review of local authorities' activity in economic development and E(LA) has agreed to legislate to control capital expenditure of this kind. Mr Ridley feels strongly that it would be wrong to acquiesce in LEL providing finance when we intend to legislate in the next session to prevent it. My Secretary of State sees the force of this argument.

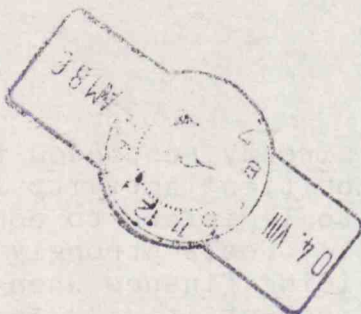
Either approving LEL involvement or refusing it has its disadvantages; in both cases we lay ourselves open to charges of inconsistency. However, in the light of Mr Ridley's views my Secretary of State has concluded that we must turn down the request for LEL involvement, if necessary relying on the publication of the Widdicome Report as a reason for no longer being prepared to countenance the involvement of LEL financing.

I am sending a copy of this letter to Robin Young (Environment).

*Timothy Walker*  
*T. Walker*

TIMOTHY WALKER  
Private Secretary

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*From the Private Secretary*

5 August 1986

The Prime Minister has now seen your letter of 4 August about the potential involvement of Lancashire Enterprises Limited in the management buy-out of Leyland Bus. She agrees with the line taken by your Secretary of State and the Secretary of State for the Environment on the approach from LEL.

I am copying this letter to Robin Young (Department of the Environment).

(TIM FLESHER)

Tim Walker, Esq.,  
Department of Trade and Industry