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DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

22 September 1986

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

Prime Minister cc BG BI

DRN
22/9

Dear David

LEYLAND BUS

My Secretary of State has asked that the Prime Minister should be aware of potential complications on the sale to the MBO of the Leyland Bus business.

Although the details are not yet clear, we understand that the main areas of difficulty include the expected volume of business for diesel multiple units from British Rail; the lower than forecast profitability of the Leyland Parts operation; and possibly the unexpectedly high cost of product liability insurance, notably for exports to the USA. The size of the problem will not be known until the MBO and their financial advisers meet Rover Group later this week but, although the venture is not necessarily in jeopardy, it is likely that at least some re-negotiation of the MBO package will be necessary.

The Rover Group are well aware of the Government's strong wish that the MBO project should succeed and are working to that end. However, it is possible that news of the difficulties may leak and you may like to see the line we propose to take if it does become public. The Prime Minister will be kept closely informed of developments.

I am copying this letter to Alex Allan (Treasury) and Richard Allan (Transport).

Yours ever

Tim

JF1BIO

TIMOTHY WALKER
Private Secretary

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LINE TO TAKE ON LEYLAND BUS AND RAILBUS/DMU ORDERS FROM BRITISH RAIL AND ON OTHER DIFFICULTIES WITH PRIVATISATION OF LEYLAND BUS

LINE TO TAKE

1 The Government have been made aware of certain difficulties which have arisen during detailed negotiations for the sale of Leyland Bus and a share of Leyland Parts to the Management Buy-out Team.

2 The extent of the problems is not yet clear and is being addressed urgently by the prospective parties to the contact (with their advisers).

If Pressed:

3 The Government have made clear that they hope the Management Buy-out of Leyland Bus will be completed and will be successful. It is too soon to make any substantive comment.

22 September 1986

CC BG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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OUR REF : JM/PSO11732/86

The Rt Hon Paul Channon MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1

NBPM

3 September 1986

Dear Paul,

LEYLAND BUS : RAIL PROCUREMENT

I have seen a copy of the letter of 22 September from your Private Secretary to Number 10.

That letter refers to the expected volume of business for British Rail diesel multiple units as a possible source of difficulty for the sale to the MBO of Leyland Bus. My officials have now seen the forecast requirements which BR have put to the management team for both diesel and electrical multiple units. They are broadly consistent with the Board's Corporate Plan and IFR bid, although there are differences of timing and (in the case of EMUs) some additional volume in later years.

My Department's judgement is that BR's forecasts are themselves high. The financial case for the new diesel builds may be substantially weaker than those already authorised, and refurbishment may prove a better option in some cases at least. The case for most of the electrical multiple units forecast may rest not on financial criteria but on quality of service and procurement judgements, which we will have to consider carefully before any decision can be taken. These uncertainties must be familiar to the BR Board. The MBO team must form their own judgement of what they have been told, and the warning BR have given them about the uncertainties; and my Department has reminded BR at Board level of the care needed in this regard. I trust there is no call on us to endorse the Board's forecast.

I am however particularly concerned on a further point. Although BR told the MBO that their requirements may be affected by bus substitution, the MBO are not aware of the imminent statement of our policy on this point. At E(NI) on 15 July, it was agreed that the Board should not enter into commitments for new rolling stock for fringe services in the Provincial Sector until the possibility of bus substitution had been considered. This policy is reflected in the draft objectives letter I propose to send to Bob Reid (and to publish) next month, which includes the following paragraph:

"The new powers which Parliament has provided for you to subsidise guaranteed substitute bus services connecting into the rail network give the opportunity to review those cases where attractive bus services could meet the needs of travellers as conveniently and often at markedly less cost than the present rail services. You will wish to conduct such reviews before proposing re-investment in rolling stock for lines of this character."

This must be material to the Board's rolling stock requirements. For working purposes we are assuming that bus substitution might reduce the requirement by roughly 100 vehicles, of the 800 unauthorised diesel vehicles included in BR's Plan and discussions with the MBO team.

It seems to me that there is some risk of criticism if the issue is not explained to Rover Group and/or the MBO team. I should be grateful for any views you or Michael Havers may have on this point.

I am copying this to the Prime Minister, Nigel Lawson and Michael Havers, and to Sir Robert Armstrong.

Yours ever
John

JOHN MOORE

IND POL : BL PT12

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Secretary of State for Trade and Industry

25 September 1986

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The Rt Hon John Moore MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

NSPN

Dear John

at flap

Thank you for your letter of 23 September.

The MBO will be discussing with Rover Group in the next day or two how the changed forecasts on likely rail orders have influenced their thinking on the proposed acquisition of Leyland Bus. Their recent contacts with British Rail have already led them to have serious doubts about the viability of the DMU business within the company but Rover Group have been warned privately that, in your Department's judgement, even the revised assumptions on which the MBO are working may still prove optimistic. They have also been warned that the new objectives for BR which are likely to be published next month may have a further adverse impact on the MBO's plans. I am satisfied there is no question of anyone being misled at this stage, but we shall be keeping a careful eye on the situation.

There has been no suggestion yet from either of the parties that Government should endorse the BR forecasts but should this idea surface over the next few days I shall of course keep you posted.

I am copying this letter to the Prime Minister, Nigel Lawson, Michael Havers and Sir Robert Armstrong.

Yours

PAUL CHANNON

Paul

DW4BMA

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Ind. Pol: B. Layland PT12.