



cc P. Harty  
cc B. Brin

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PRIME MINISTER

**BL PRIVATISATION**

You should be aware of important recent developments on two fronts: Unipart and GM's interest in Land Rover-Leyland.

UNIPART

2 The BL Board have reported to me totally unexpected and infuriating news which appears to rule out the preparation of a viable prospectus for a successful privatisation in 1985. I have expressed my indignation to Sir Austin Bide in no uncertain terms.

3 Grave problems of stock control in Edmunds Walker (which Unipart acquired in September 1984) have come to light and will lead to Unipart profits for 1985 being no more than £11m against the anticipated £13.4m. Worse, the defects in the accounting and stock control systems are such that intensive enquiries have so far failed substantially to explain the cause of the problems and it is expected that the auditors will have to qualify the Edmunds Walker and Unipart accounts for the first half of 1985. In particular it is not yet clear whether the problems are continuing ones or are once and for all consequences of the original acquisition.

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4 The earliest that the evaluation of another stock count might provide a full explanation is mid-October. However, until there is an explanation of the problem and a proven strategy for dealing with it the BL Board cannot recommend a revised timetable. Sir Austin Bide has undertaken to let me have this as quickly as possible. Nevertheless, I have to say that the preliminary advice of Samuel Montagu, my Department's advisers, confirms that in the circumstances privatisation by public offer for sale or private placement is unlikely to be possible this year. Their definitive advice will arrive in the next few days.

5 The state of affairs that has come to light is unacceptable and disgraceful. I have set in hand an urgent and thorough enquiry to establish the facts, notably why the nature and scale of the problems at Edmunds Walker were not picked up before acquisition, or very soon thereafter, and tackled vigorously before they became a threat to the privatisation timetable; what were the precise responsibilities of BL's advisers and how they performed; and in general who was responsible for what occurred. I will of course let colleagues have a copy of this report as soon as it is completed.

6 I also wish to be fully satisfied that the remedial action now in hand by the company will deliver the earliest possible revised date for privatisation. I have instructed my officials, in conjunction with their Treasury and Policy Unit colleagues, to pursue this with BL. The problems whilst unquantified and not put to rights are likely to mean some delay - I reluctantly accept that. But once their extent has been established and remedial action has been taken, I start from the position that the drop in profits will simply be reflected in the price. Such a reduction in the price must not, in my view, provide any excuse for a

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further delay in the sale, and I have already made this very clear to Sir Austin Bide.

GM : LAND ROVER-LEYLAND

7 I can, however, report more positive news on GM's interest in LRL. At talks in Detroit on 12 September GM indicated their intention to bid for a major part of the LRL Group including Leyland Trucks, Land Rover and Freight Rover. The only significant exclusions are Leyland Bus (for which there are alternative potential purchasers) and certain overseas operations yet to be defined.

8 Although no firm decisions have been taken, the following pattern of rationalisation appears to be envisaged:-

- consolidation of commercial truck manufacture at Leyland, Lancashire, with consequent closure of Bedford's commercial vehicle facilities at Dunstable;
- consolidation of military vehicle production at Dunstable (involving closure of Leyland's Scammell operations currently at Watford);
- rationalisation of the Bedford and Freight Rover van ranges probably with eventual consolidation of manufacturing at Luton;
- Land Rover at Solihull to continue as a specialist manufacturer of Land Rovers and Range Rovers.

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9 The scale and timing of redundancies in the plants at risk is not yet clear but might eventually be of the order of 4500 to 5500 jobs principally at Dunstable, Watford and Birmingham. Nevertheless my view is that perhaps sooner rather than later further rationalisation in the commercial vehicles industry would in any case have been necessary; the GM proposal offers orderly rationalisation whilst providing the opportunity for early, substantial privatisation in what has been regarded as an intractable problem area.

10 Nevertheless there is still some way to go before we can be confident that it is a runner. GM's immediate need is to have confirmation that HMG and the BL Board are content in principle for such an acquisition to go ahead. The Board have already given their endorsement and, subject to your views and those of the Chancellor of the Exchequer, I propose we do the same. In that event, the next step would be a formal presentation by GM of their proposals, including their "order of magnitude" valuation of the businesses to be acquired, as a prelude to detailed negotiations. These promise to be extremely tough.

11 GM's opening position is likely to be that they are unwilling to pay out much cash for these operations, given the situation of the various businesses, the scale of the rationalisation required and the difficulties of integration. GM say, furthermore, that they are not willing to take on any of the debt associated with LRL, which has a debt: equity ratio of 90:10 on £540m assets employed. GM are likely to seek to base valuation on potential

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earnings and cash flow rather than the book value of the assets. GM may also look for help with rationalisation costs.

12 On the structure of the consolidated operation, GM would prefer 100 per cent ownership but, provided they have clear management control and a majority holding, they would be flexible on a retained minority BL holding if it emerged from the negotiations that this would be a sensible arrangement.

13 GM's aggressive opening stance is predictable and we shall need to see how far they are prepared to move in negotiation. I am anxious that the negotiations - which I envisage will embrace a detailed understanding with GM on commitment to continued manufacturing in the UK as well as fundamental questions of debt and price - should proceed as rapidly as possible. It is by no means certain that an acceptable deal will emerge. In this context, as Government interests are central, I do not believe we should rest solely on BL management to conduct the negotiations. I intend therefore to propose a tripartite group involving DTI and its merchant banking advisers as well as GM/BL to be responsible for decisions on the major issues. The brief for these negotiations will of course need very careful consideration and I suggest that a small steering group of officials from this Department, Treasury and the Policy Unit should get together to prepare the ground.

14 I am sending a copy of this minute to the Chancellor of the Exchequer.

L.B

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26 September 1985

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