



PRIME MINISTER

BL FUTURE STRUCTURE

*Objectives much too vague. We will decide them next week. CCG stand on Board*

Prime Minister

Robin Ibbes believes that CCG is the right consulting group; that they can do the work in four weeks; that the terms of reference are satisfactory; and that the objectives are as good as we could get with the present Board (Robin would have preferred (iii) promoted to (i), and the existing (i) and (ii) made decidedly subsidiary).

At the meeting of Ministers which you chaired on 14 January, it was agreed that the Government should seek independent advice on the BL Board's proposal for the future structure of the company and that I should, in conjunction with the CPRS, investigate the possibility of procuring the services of consultants for this purpose.

*Do you agree, subject to the proviso at X in John Hoskyns' note?*

*MCS 21/1*

2 Robin Ibbes and I have discussed the possible candidates for this task, including Coopers and Lybrand, the Corporate Consulting Group (CCG) and McKinseys. McKinseys are currently advising Nissan about their proposed investment in the UK and I think that this rules them out for advising on BL because of a possible conflict of interest. Coopers and Lybrand would not be able to take on the task, so Robin Ibbes has approached the CCG, who he believes would be well qualified as the problem is very much in the area in which they specialise. They are well regarded also by my own Department. The CCG would be prepared to undertake a four week investigation starting next Monday; because there would be a need for major rearrangement of other parts of their work, they have asked if they could have an indication as early as possible this week of whether they were to be asked to do this work.



3 I attach draft terms of reference for the consultants which I have drawn up with the help of Robin Ibbs. As you will see, they have as an attachment draft Government objectives for BL. Because it is important for the purposes of this exercise that both BL and the consultants should be clear about the Government's objectives, these have been discussed informally with Sir Michael Edwardes in advance of the paper which I shall be putting shortly to the E(NI) Committee containing objectives for all the industries sponsored by my Department.

4 The BL Board have behaved very responsibly over this matter. They do not like the idea of an enquiry by consultants, but have agreed to it. They attach great importance to the wording of the terms of reference and the draft Government objectives. I am satisfied that these are now clear and have the right emphasis. The Board have agreed to cooperate fully with the consultants of our choice.

5 I should be grateful for your early agreement to the appointment of the Corporate Consulting Group and to the terms of reference which Robin Ibbs and I propose to give them, so that they can make an immediate start on the enquiry.

5 I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Trade and Employment, and to Sir Robert Armstrong and Robin Ibbs.

PJ

P J

21 January 1982



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TERMS OF REFERENCE FOR CONSULTANTS

To consider and make recommendations, in the light of the draft Government objectives for the Group (copy attached), on whether any changes are desirable, in connection with the departure of Sir Michael Edwardes at the end of 1982, in the organisation for management of the activities within the BL Group, and if so what form of organisation might best meet these objectives.

*See overview for final version of next para.*

The investigation will evaluate the proposals put forward by Sir Michael Edwardes and the BL Board and consider <sup>and if appropriate</sup> appropriate

*recommend* alternatives, taking account of <sup>with</sup> the Board's responsibility to judge the company's commercial interests, and the Government's *overview*

need as shareholder to satisfy itself that any changes will not impede the objective of returning the businesses to the private

sector. <sup>(ii) \* Recommendations</sup> These <sup>or more</sup> should include the possibility of retaining a single holding company with either two major or a number of smaller operations for which management responsibility is fully delegated.

This assignment should be completed within four weeks. All contacts with BL should be made through the Chairman. In view of the commercial confidentiality of this enquiry, no contacts should be made with organisations other than BL and the relevant Government Departments without prior consultation with the Chairman.

*(ii) the Board's responsibilities to measure and control the operating efficiency of the company.*

2. The investigation will evaluate -
- (i) the proposals made by Sir M. G. and the Board and recommend alternatives where appropriate; taking into account  
the Govt's need as shareholder to satisfy itself that any changes will not prejudice the objective of returning the business to the private sector
  - (ii) the Board's responsibilities to measure and control the operating efficiency of the company.

Recommendations should include the possibility of retaining a single holding company with two or more major operations, or a number of smaller operations for which management responsibility is fully delegated.



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DRAFT

The objectives for BL's business are:

1. *commentary on 1.* to *sell right of low-making*  
to streamline the business through the disposal or closure of peripheral activities so as to concentrate on the mainstream activity of vehicle manufacture and sales; *- low though less output?*

2. to pursue a programme of product, market and business development, *wholly* within the limits of public funding agreed *of already announced* by Government, *some...* to ensure that the business can operate on a continuing commercial basis, and in particular to bring about:

a. the recovery of the business to breakeven, before interest and tax, in 1983; *?? I do not understand this.*

b. the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support;

iii. *No. 1!* *All other* *Substantially -* consistent with (ii) above to plan and implement a strategy for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under (ii) and (iii) will *prejudice* ~~impede~~ this strategy.

2. *to be consistent with 1. - to disposal of or close peripheral activities so as to concentrate vehicle manufacture and sales*

3. *to pursue a programme of product market and business development - wholly within the limits of public funding already agreed and announced by Government so that the business can operate on a continuing commercial basis and in particular*

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