

**RETURN to an Order of the Honourable the  
House of Commons dated 23rd April, 1975 for**

# **British Leyland: the next decade**

**An abridged version of a report presented  
to the Secretary of State for Industry by a  
Team of Inquiry led by Sir Don Ryder**

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*Ordered by The House of Commons to be printed  
23rd April, 1975*

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*LONDON*  
HER MAJESTY'S STATIONERY OFFICE



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**HC342**

**CORRECTIONS**

Page 56. Chart 12.4.

The word 'CARS' in the second box headed 'Managing Director' should read 'TRUCK & BUS'.

Page 59. Chart 12.7.

The words 'TRUCK & BUS' in the second box headed 'Managing Director' should read 'CARS'.

DEPARTMENT OF INDUSTRY

*April 1975*

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## **Foreword**

It was announced by the Secretary of State for Industry, the Rt. Hon. Anthony Wedgwood Benn, MP, in the House of Commons on 18th December 1974 that the Government had appointed a team, led by Sir Don Ryder, to conduct an overall assessment of the present situation and future prospects of the British Leyland Motor Corporation Limited. Their Report was received on 26th March 1975.

The following text comprises that Report, edited to remove confidential material.





26th March, 1975

The Rt. Hon. Anthony Wedgwood Benn  
Secretary of State for Industry

Sir,

We were appointed by you on 18th December, 1974 to conduct, in consultation with the Corporation and trade unions, an overall assessment of the British Leyland Motor Corporation's present situation and future prospects, covering corporate strategy, investment, markets, organisation, employment, productivity, management/labour relations, profitability and finance, and to report to the Government.

In the course of our Inquiry we have had many meetings with members of the Board and senior executives of British Leyland and we and our supporting staff have visited nearly all the Corporation's plants. We are aware that these discussions and visits and the task of providing information have imposed heavy burdens on the Management and their staff at a particularly difficult time. We should like to record our appreciation of the courtesy with which we were treated and the helpful manner in which our requests were handled.

We have also had meetings with trade union representatives, including representatives of British Leyland shop stewards, both in London and at the various plants and a meeting with elected representatives of British Leyland middle management. The written submissions which they made to us and the talks we had with them were of great help to us in our work.

Finally we should like to acknowledge the many written submissions we received from organisations and individuals and the willingness with which many of them gave up time to talk to us or our supporting staff about British Leyland. To them and to all who have helped in the preparation of the Report we express our thanks.

We now submit our Report.

SIR DON RYDER, *Chairman*

R A CLARK

S J GILLEN

F S McWHIRTER

C H URWIN



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## **BRITISH LEYLAND: THE NEXT DECADE**

### **Summary**

1. We were appointed on 18th December 1974 '... to conduct, in consultation with the Corporation and the trade unions, an overall assessment of BLMC's present situation and future prospects, covering corporate strategy, investment, markets, organisation, employment, productivity, management/labour relations, profitability and finance; and to report to the Government' (*Hansard*, col 1727). At the same time the Government obtained Parliament's approval to a guarantee by the Government of lending by the banks to British Leyland (BL) of up to £50m. Chapter 1 of the Report outlines briefly the origin and nature of the financial crisis at BL which brought about the Government intervention. It also includes (paragraph 1.11) the confidential guidelines given to the Team to amplify the published terms of reference.

#### **Prospects for the industry**

2. We decided that, in assessing BL's situation and prospects, it would be useless to take a short-term view. In the motor industry three or four years must elapse between the decision to introduce a new model or to undertake a major plant modernisation and the completion of these projects. Once the new model is introduced and the new plant is in full operation, many more years must elapse before resources can be available to replace the model or renew the plant. Therefore decisions made now about a capital expenditure programme extending over five to seven years must take into account market prospects ten years from now.

3. Our starting point was therefore to examine world market prospects for the motor industry generally over the period to 1985. It is unusually difficult to make such an assessment at present. The past eighteen months have seen a sharp rise in the price of oil relative to other goods, historically high rates of inflation throughout the world, and a cutback in economic growth and consumer demand in the main industrial countries. As a result car sales which had grown rapidly over the two decades up to 1973 fell abruptly in all major markets in 1974 and may be no higher and perhaps even somewhat lower this year. Along with more long term anxieties about the environment and congestion, the recent drop in demand has raised some doubts and uncertainties about future prospects for the motor industry.

4. The conclusions we have reached are set out in Chapter 2. Broadly our view is that while the world market for the motor industry over the next decade will undoubtedly be less buoyant than in the recent past and will be more fiercely competitive, particularly in the early years when there is likely to be excess capacity, it will remain a large and valuable market. Moreover, in some

areas of the world and for some types of vehicles considerable growth in sales can be expected.

5. Nearly half the vehicles produced by BL are cars for the UK market. The UK market for cars depends mainly on trends in the economy, particularly in the growth of consumers' expenditure, and on action which Governments take to influence these trends. On reasonable assumptions about these matters (discussed in paragraphs 2.11 to 2.16) we think that *the total UK car market should start to grow again in 1976, should by 1980 have recovered to the 1973 peak of 1.6m vehicles and should between 1980 and 1985 grow further to at least 1.7m vehicles and possibly a higher level.*

6. The prospects in overseas markets for cars are discussed in paragraphs 2.17 to 2.20. In Western Europe (excluding the UK), which accounted for nearly 60 per cent (some 200,000) of BL's overseas car sales last year, we believe that *total demand will start to recover next year, should reach around 9m cars in 1980 (13 per cent higher than in 1973) and at least 10m cars (26 per cent higher than in 1973) by 1985.* In most other markets, including the USA, which last year accounted for about 15 per cent (some 52,000) of BL's overseas car sales, the pattern is expected to be more like that in the UK – a recovery to 1973 levels by 1980 and little growth between 1980 and 1985.

7. The prospects for vans both in the UK and Western Europe are broadly the same as those for cars (paragraphs 2.31 to 2.33).

8. The UK market for heavy trucks is discussed in paragraphs 2.23 to 2.26. Partly as a result of the tendency to replace such vehicles more frequently because of more stringent vehicle legislation and the cost and scarcity of qualified maintenance staff, total UK demand for heavy trucks seems likely to be about 30 per cent higher than last year by 1980 and there should be some further modest growth between 1980 and 1985.

9. The prospects in overseas markets for heavy trucks (paragraphs 2.27 to 2.30) are good. This is particularly true of those countries which either produce oil (Iran and Nigeria) or have good access to favourably priced oil (Turkey) and are growing fast. *In these three countries it seems likely that demand for heavy trucks will more than double by 1985.* There is also a large market for heavy trucks in Western Europe which shows modest but significant growth prospects over the next few years and where BL has a major opportunity for increasing its penetration.

10. For buses there are problems in forecasting demand both in the UK and overseas, since it turns on the placing of particular large contracts. In the UK BL is a dominant supplier of many types of bus (notably double deck buses) and operators seem likely to want to place large orders over the next few years which BL could not meet (paragraphs 2.34 to 2.37). We recommend in Chapter 5 (paragraph 5.27) that the Department of the Environment should as a matter of urgency hold discussions with BL and the major UK bus operators to work out arrangements for *better co-ordination between the bus operators and BL to phase orders and deliveries.* As capacity becomes available, both to meet

home demand and to supply overseas markets on a more regular basis, BL will have to make a *more systematic attempt to forecast overseas demand for buses* (paragraph 2.34).

11. For agricultural tractors, which accounted for only 13,000 of BL's total sales of over 1 million vehicles in 1973/74, demand at home and overseas will probably continue to decline, although there will be growth in some countries where mechanisation of agriculture is likely to develop over the next few years.

#### **The right strategy for BL**

12. Against the background of this assessment of world market prospects we considered what strategy BL should follow over the next decade and our conclusions are set out in Chapter 3. We examined the following issues:

- (i) Whether there is a future for BL as a vehicle producer.
- (ii) Whether BL should diversify into non-vehicle activities and divest itself of its existing peripheral activities.
- (iii) Whether BL should remain a producer of both cars and commercial vehicles.
- (iv) Whether BL should remain a producer of both volume and specialist cars.
- (v) In which geographical areas BL's marketing effort should be concentrated.

13. We concluded that there was undoubtedly a future for BL as a vehicle producer. Although competitive pressures will increase over the next decade, there is no reason why BL should despair of improving its position in this very valuable market. Vehicle production does not involve the kind of advanced technology which can only be financed in very strong and highly developed economies such as the United States. On the other hand, although there is likely to be an increasing trend towards local manufacture in the developing countries, there is enough scope for sophistication and refinement to give established producers with skilled labour forces a competitive edge in the developed countries. In general, therefore, *vehicle production is the kind of industry which ought to remain an essential part of the UK's economic base*. We believe, therefore, that *BL should remain a major vehicle producer, although this means that urgent action must be taken to remedy the weaknesses which at present prevent it from competing effectively in world markets*.

14. Since BL is already a very large company and needs to concentrate its managerial skills and resources on improving its competitive position as a major producer of vehicles, we concluded that it would not be wise for BL to diversify its activities into unrelated sectors of industry. We have, however, recommended a neutral policy on the divestment of BL's existing peripheral activities—the operations grouped in BL's Special Products Division and Prestcold Ltd. We provide some factual information about these activities in Chapter 13, pointing out that there are major market opportunities and growth prospects for Prestcold in particular which need to be vigorously pursued. We have therefore proposed that, following the Report, there should be a detailed investigation of the future of these companies.

15. We concluded that *BL should remain a producer both of cars and of trucks and buses* (paragraph 3.7) and also that BL should continue *in both the 'volume' and the 'specialist' sectors of the car market*. In particular we considered whether BL should abandon the 'small/light' sector of the market. In practice, this would mean that BL would not provide for any replacement for the Mini in its future product plans. We concluded that there were strong arguments both on commercial grounds and on national economic grounds for BL to *continue in the small/light sector of the market* (paragraph 3.8). In order to compete effectively in all the major sectors of the car market *BL would have to cut out competition between models in the same sector, and reduce the number of different body-shells, engines, transmissions etc. Similar rationalisation would be necessary in trucks and buses* (paragraph 3.9). BL would also need to build on the reputation for quality and distinction which it enjoys in the more expensive sectors of the market. All its models, throughout the product range, should have sufficient distinction to ensure a competitive edge against the very high volume producers (paragraph 3.10).

16. On markets (paragraph 3.11) we concluded, following the analysis in Chapter 2, that *the main thrust of BL's marketing effort overseas should be to increase its present small share of the expanding Western European market* both for cars (under 3 per cent at present) and for trucks and buses (about 1 per cent at present). BL should also continue to take full advantage of the very rapidly growing market for trucks and buses in certain developing countries such as *Iran, Nigeria and Turkey*.

#### **Financial position**

17. In Chapter 4 we set out our assessment of BL's financial capability for carrying out this strategy. An examination of past trading results shows that throughout the period since BL was formed in 1968, *profits were wholly inadequate and insufficient to maintain the business on a viable basis* (paragraphs 4.3 to 4.6). To make matters worse nearly all the profit was distributed as dividends instead of being retained to finance new capital investment (paragraphs 4.7 and 4.8). A substantial proportion of BL's fixed assets were old and had been fully written down. *The depreciation charge was therefore an inadequate measure of what should have been spent on capital replacement* (paragraphs 4.9 to 4.11). *Working capital was also run down to a critical level* (paragraph 4.12).

18. We concluded therefore that BL's present levels of capital expenditure and working capital were far too low. *Even to maintain these levels in real terms would, because of inflation, require BL to earn at least £100m a year profit*, (paragraph 4.13) *and much larger sums would need to be earned to make up for the capital rundown in the past*.

19. [The forecast of BL's profits and cash position to end September 1975 given here has been omitted for reasons of commercial security.]

We concluded, therefore, that *very large sums would be needed from external sources to finance the action required to make BL a viable business*.

#### **Product range and markets**

20. In considering what action would be required to make BL viable, we



looked first at BL's product range and market objectives. Our conclusions are set out in Chapter 5.

21. On the product plan the time lag referred to in paragraph 2 of this Summary meant that we could not make any recommendations for introducing new models before the end of 1978. [The summary of the Team's proposals for new models given here has been omitted for reasons of commercial security.]

22. Our other recommendations, together with BL's existing product plan to the end of 1978, are mainly directed to *product rationalisation*. [The summary of the Team's proposals for a reduction in the number of models, engines, transmissions and axles given here has been omitted for reasons of commercial security.]

23. With this product plan we consider that BL should be able to retain in the early nineteen-eighties its present share of the UK market for cars, trucks and buses. BL's base in the UK market is still one of its major strengths. As competition from imports will increase substantially, maintaining this home market share will require a considerable and sustained marketing effort by BL (paragraph 5.31).

24. We recommend, however, that BL should devote more effort than in the past to developing overseas sales. In recent years BL has had a poor reputation in many overseas markets for not keeping delivery promises, for shortage of parts, and for inadequate after-sales service. We comment on the reasons and the possible remedies in paragraph 5.32. Within overseas markets we recommend that the main emphasis should be on Western Europe (in accordance with the market assessment in Chapter 2 and the proposed strategy in Chapter 3). In Western Europe (excluding the UK) BL should aim to improve its share of the car market from around 3 per cent to around 4 per cent and of the truck market from around 1 per cent to around 5 per cent. BL should also take full advantage of the opportunities for truck sales in the richer developing countries such as Iran, Nigeria and Turkey.

### **Engineering**

25. We next examined BL's engineering resources and facilities to see whether they would be capable of carrying out this extensive programme of product development and rationalisation. Our conclusions and recommendations are set out in Chapter 6. We consider that the dispersed and fragmented organisation of BL product development engineering is a serious weakness. We propose that the skills concerned with various aspects of product development – product planning, styling engineering and vehicle engineering – should be brought within a single product development organisation for cars and that there should be a similar organisation for trucks and buses (paragraphs 6.2 to 6.5). BL also needs new central laboratories and workshops for the design and development of new cars and components. We recommend that these should be built by 1979; as an interim measure, temporary facilities, probably at Solihull, should provide the centre of control for vehicle engineering personnel; the truck and bus facilities at Leyland should be extended as a matter of urgency (paragraphs 6.6 and 6.7). An early decision is needed on how test track facilities can best be provided for BL (paragraph 6.8).

## **Production**

26. We next examined the adequacy of BL's production facilities. A detailed study has been made which will be available in due course for BL's ongoing management. Our main conclusions and recommendations are set out in Chapter 8.

27. For historical reasons BL has a large number of plants scattered throughout the country. Although some progress has been made since the merger towards a more logical arrangement of manufacturing operations in the different locations, there is still too much movement of manufactured parts and sub-assemblies between plants. In body and assembly operations we recommend that individual plants should be associated with one or more model lines from the receipt of pressed out panels to final assembly (paragraphs 8.5 and 8.6). Likewise, plants should specialise in the production of engines, gearboxes and chassis without distinction by model type and without being involved in body assembly operations (paragraph 8.7). Similar parts should be produced in the same location (paragraph 8.8). A senior executive should be appointed to develop BL's parts manufacturing activities to improve costs and reduce the number of different parts (paragraph 8.9). Substantial economies could and should be achieved quickly by a programme to improve the layout of processes within plants (paragraph 8.10).

28. The most serious feature of BL's production facilities is, however, that *a large proportion of the plant and machinery is old, outdated and inefficient* (paragraph 8.11). [Information about the age of BL's plant and machinery given here has been omitted for reasons of commercial security.] BL's foundries are in urgent need of modernisation to bring them up to modern efficiency levels and safety and environmental standards. These serious deficiencies are the result of the lack of provision for capital expenditure discussed in Chapter 4 and referred to in paragraphs 17 and 18 of this Summary. *A massive programme to modernise plant and equipment at BL must therefore be put in hand immediately* (paragraphs 8.13 and 8.14) in conjunction with the new product plan.

## **Organisation and management**

29. We then considered whether BL's existing organisation and management would be appropriate to carry out the strategy we had proposed and the necessary programme of product rationalisation, reorganisation of production and engineering facilities, and new capital investment. Our conclusions and recommendations are set out in Chapter 12. We are convinced that *BL's present organisational structure has harmful effects on the efficiency of BL's operations and is likely to impede its future development. It combines most of the disadvantages of both centralised and decentralised organisations with few of the advantages of either* (paragraph 12.4). There has been inadequate integration of the product planning, engineering, manufacturing and marketing of cars. The Managing Director has too many people reporting to him. The creation of a large corporate staff has undermined the authority and responsibility of line management.

30. Our approach has been to divide up BL's activities, within *the overall corporate structure*, into *four separate businesses*—British Leyland Cars, British Leyland Trucks and Buses, British Leyland Special Products and British Leyland

International (Chart 12.3). *Each would be a profit centre in its own right with its own Managing Director.* At corporate level there would be a *non-executive Chairman and a Chief Executive and a corporate staff drastically reduced to the absolute minimum* (paragraph 12.18).

31. We considered and rejected the approach of dividing up BL's car operations into two or three separate divisions based on products (Austin Morris, Rover Triumph and Jaguar). We believe that this would impede the policies of product rationalisation and integration of design, engineering and production recommended in Chapters 5, 6 and 8 (paragraphs 12.11 to 12.13).

32. We attach the greatest importance to the *maximum delegation of authority and responsibility within the new structure* from the Chief Executive to the four Managing Directors and from them to the line management below them. This would take place within a framework of corporate planning and control which we outline in paragraphs 12.14 to 12.17.

33. Our proposals for the internal organisation of the four separate businesses are set out in paragraphs 12.21 to 12.23 and Charts 12.4 to 12.7. The most important proposals are those relating to British Leyland Cars where we recommend four line divisions—one dealing with product planning, development and engineering, one with manufacturing, one with sales and marketing, and one with parts and KD ('knocked down') activities. This is a radical change from BL's present organisation which consists of separate divisions for different products dealing with their own engineering and marketing and, to some extent, manufacturing, co-ordinated by corporate staff.

34. Associated with this new organisational structure and approach there will have to be *changes in BL's top management.* Our proposals are in paragraphs 12.24 and 12.25. In some cases we have been able to recommend particular individuals; in other cases, for reasons which are explained, we have not been able to do this but we have candidates in mind. The quality of BL's second rank management is generally good, and often very good.

#### **Industrial relations**

35. Throughout our inquiry we were aware that, although we had many proposals to make BL more competitive—fewer and better models, improved facilities for design, engineering and production and changes in organisation and management—BL's success would depend most of all on the skills, efforts and attitudes of its 170,000 employees. We have therefore examined industrial relations at BL at some length in Chapter 9 of our Report. We do not subscribe to the view that all the ills of BL can be laid at the door of a strike-prone and work-shy labour force (paragraph 9.2). Nevertheless, it is clear that if BL is to compete effectively there must be a reduction in the man-hours lost through industrial disputes (paragraphs 9.3 and 9.4). More productive use must also be made both of BL's existing capital investment and the planned additional capital investment and this must mean more realistic manning levels and more mobility and interchangeability of labour (paragraphs 9.5 and 9.6).

36. We found ample evidence that BL's employees at all levels want to make

their contribution to solving BL's problems (paragraph 9.8) and we must therefore find ways of sustaining and developing this constructive approach. We consider it essential (paragraph 9.9) that *the progress of the capital expenditure programme and the injection of new finance by the Government should be staged and that each stage should depend on evidence of a tangible contribution by BL's work force and management to the reduction of industrial disputes and the improvement of productivity*. Careful forward manpower planning will be needed (paragraph 9.10), particularly in areas where major rationalisation of production facilities is undertaken.

37. We considered measures to improve industrial relations at BL under three main headings—payment systems, collective bargaining and industrial democracy.

38. We concluded that there should be no major change in the system of payment by measured day work; there is, however, scope for improving the system and the possibility of introducing some incentive element in the future should be kept under review (paragraphs 9.12 to 9.15).

39. We recommend that BL should continue to negotiate basic wages and conditions through the Engineering Employers' Federation but should keep under review the balance of advantage of remaining within the Federation (paragraph 9.19). The basic agreements negotiated through the EEF are supplemented by local bargaining at plant level. We consider that the multiplicity of bargaining units and renewal dates is an unsettling factor in BL's industrial relations. We therefore recommend that discussions should be held with the trade unions about a gradual but substantial reduction in the number of collective bargaining units within BL and about a reduction in the renewal dates for wage settlements (paragraphs 9.20 to 9.22). BL line management in the new bargaining units should have sufficient delegated authority to negotiate effectively (paragraph 9.23).

40. The most crucial factor in improving industrial relations at BL and in creating the conditions in which productivity can be increased is, however, that there should be some significant progress towards *industrial democracy*. *Means must be found to take advantage of the ideas, enthusiasm and energy of BL's workers in planning the future of the business on which their livelihood depends* (paragraph 9.24). The contribution which we are seeking to the reduction of industrial disputes and the improvement of productivity can only be made in an atmosphere of joint problem-solving by management and unions. There should be a framework, removed from the normal arrangements for collective bargaining, in which *agreement can be reached on the action required* (paragraph 9.32).

41. We have therefore proposed a *new structure of joint management/union councils, committees and conferences*, in which BL's shop stewards and particularly their senior shop stewards will have a major rôle. The terms of reference of these bodies are in paragraphs 9.36 and 9.37. *Trade union members will have to recognise the new responsibilities which the shop stewards are exercising on their behalf and ensure that the right people are chosen to exercise these responsibilities*. The first stage in implementing the proposals must be to explain

them fully and discuss them with BL's management and senior trade union representatives (paragraph 9.39).

#### **Procurement, distribution, controls and systems**

42. Our comments and recommendations about procurement, distribution and controls and systems are recorded briefly in Chapters 7, 10 and 11. Many of the matters dealt with are related to our main proposals on organisation and management in Chapter 12 (see paragraphs 29 to 34 of this Summary).

#### **Cost of the programme**

43. We have therefore sought to devise a comprehensive and balanced programme to make BL a viable and fully competitive vehicle producer. In Chapter 14 we have assessed the financial consequences of the programme up to the end of September 1982. In doing so we have thought it necessary to make some assumptions about future rates of inflation and these are explained in paragraph 14.3.

44. Inevitably, because of the backlog of past massive under-investment, the capital expenditure required is very large. *In constant price terms it is £1,264m and in inflated price terms £2,090m over the eight years to end September 1982* (paragraphs 14.4 to 14.8). There will also have to be an increased provision for *working capital of around £260m in constant price terms or £750m in inflated price terms* (paragraph 14.9). Although the cost of this programme is large we are convinced that this expenditure is necessary to make BL viable and fully competitive.

45. A forecast has been prepared of the effect of this additional expenditure in improving BL's profits on certain assumptions—including an important assumption about the contribution from the work force in agreeing to manning reductions and greater mobility and interchangeability of labour. Our forecast is that BL's profits as a percentage of sales should improve to 11 per cent in 1981/82 compared with an average of 6.5 per cent in the period 1968/69 to 1973/74. BL's return on capital employed is also forecast to improve to 19.6 per cent in 1981/82 compared with an average of 9.6 per cent in the period 1968/69 to 1973/74 (paragraphs 14.10 to 14.13). While we recognise that this is not a satisfactory return, it must be appreciated that it is caused by the past massive under-investment. After 1982 BL should start to reap the benefits of the new capital expenditure programme.

46. We then analysed the effect on BL's cash flow. Although BL is forecast to achieve a positive cash flow in 1981/82 there is likely to be *a requirement for funds from external sources during the period 1974/75 to 1980/81 of £1,300m to £1,400m in inflated price terms. In the period to end September 1978 the requirement is forecast to be £900m in inflated price terms.*

#### **Financing of the programme**

47. In Chapter 15 we set out our proposals for financing the requirement of £900m in inflated price terms up to the end of September 1978. In our view a very large part of the funds can only be provided by the Government (paragraphs 15.2 to 15.4) and we argue (paragraph 15.5) that there is an overwhelming-

ly strong case for the Government to provide the funds because of BL's importance to the national economy. We recommend strongly against appointing a receiver for BL (paragraph 15.6).

48. We therefore propose that the Government should be prepared to provide *£200m in equity capital now and up to £500m in long term loan capital in stages over the period 1976 to 1978* (paragraph 15.9). The equity capital should be provided by the Government's underwriting of a rights issue to existing shareholders, following a capital reconstruction through a Scheme of Arrangement. It is likely that relatively few shareholders will take up these rights and the Government will therefore be left with most of the shares. The rights issue should be preceded by an *offer by the Government to buy out existing shareholders at a price of 10p per share*. [The Team's judgement about the percentage of the enlarged equity capital likely to be acquired by the Government has been omitted.] On the inflation assumptions explained in paragraph 14.3 of Chapter 14 a further £500m is forecast to be required between end September 1978 and end September 1982. It is not possible to foresee the type of financing which will be appropriate for a period so far ahead but the Government must be prepared to make funds available either as loan capital or as a mixture of loan and equity capital (paragraph 15.22).

49. We recommend that, following the initial injection of £200m of equity capital, there should be review points on each occasion when a further tranche of funds is provided to assess the contribution being made to the reduction of industrial disputes and the improvement in productivity (paragraph 15.23).

#### **Timing**

50. *The timing of the programme outlined in our Report is crucial to BL's survival*. [The Team's proposals about the timetable have been omitted].

#### **Presentation**

51. When the Government announces its intentions about BL, a major effort must be made to ensure that the proposals are fully understood by the employees and that the employees recognise the implications for them. A series of meetings will have to be arranged throughout BL at which the new management of BL can explain what the capital expenditure programme means for the future of BL, that the injection of substantial funds from the Government will be dependent stage by stage on progress towards reducing industrial disputes and improving productivity, and that management and trade union representatives have been asked by the Government to set up a new structure of joint councils, committees and conferences to seek agreement on the action required.

## CHAPTER 1

### Events leading to the inquiry

1.1 The British Leyland Motor Corporation Ltd (BL) began a series of high-level discussions with the Department of Trade and Industry (later the Department of Industry) in the summer of 1973. At that time BL was drawing up a new capital investment programme for the following five to six years. The Government was concerned primarily about the extent to which, as part of this programme, new projects might be undertaken in the assisted areas, in return for selective financial assistance under Section 7 of the Industry Act 1972.

1.2 From the autumn of 1973 onwards, a succession of events—the oil crisis, the three-day week, the deterioration in economic prospects in the United Kingdom and world markets, and the rapid increase in inflation—caused BL to re-appraise radically both its capital investment programme and its financial position. Whereas BL's budget in the autumn of 1973 had assumed a profit before tax of £68 million in 1973/74, a loss of £16 million was reported for the first half year to the end of March 1974.

1.3 This turn-round in BL's profitability made it much more difficult for the Corporation to assume that it could finance expansion from its own resources. At the same time the downward revision of market forecasts both cast doubts on BL's capacity to earn adequate profits in the medium term and weakened the case for investment in additional capacity. The cost of the original programme had in any case increased to over £900 million. BL therefore concluded in the summer of 1974 that the original capital investment programme would have to be scaled down to the minimum consistent with maintaining a viable business and that, even at that level, it could not be financed from BL's own resources.

1.4 In July 1974 BL therefore made a presentation to its principal bankers (the four clearing banks—Barclays, Lloyds, Midland and National Westminster) to seek their support for a revised capital investment programme of £507 million spread over the six years 1972/73 to 1977/78. Of this total £142 million was due to have been spent by September 1974, leaving £365 million for the four years from October 1974 to September 1978. BL had arrived at the new programme by cutting out most of the planned capacity increases and by deferring or eliminating some model changes. Only 9 per cent of the expenditure was for the expansion of existing capacity and the remainder was divided almost equally between expenditure on modernisation and expenditure on tooling and facilities for new models. To finance this modified plan BL sought medium-term finance of £150 million, of which £50 million would reduce existing UK overdraft facilities.

1.5 At about the same time there were also discussions between BL and the Department of Industry about the capital investment programme. The Department was concerned about the wider and longer term economic consequences of a cut-back in BL's capital investment. BL therefore indicated the developments which could be financed if, in addition to the finance being sought from the banks, £100 million could be made available from external sources.

1.6 Meanwhile, BL was becoming aware that its cash position was deteriorating even more seriously than had been foreseen earlier in the year. The Board reviewed the position at the end of September. A cash conservation programme was instituted and approvals of capital expenditure were restricted. The clearing banks also became seriously concerned about BL's cash position and in November instructed Mr J T H Macnair, a partner in the firm of accountants Thomson McLintock & Co, to examine the validity of the cash projections BL had made available to them the previous July.

1.7 The seriousness of the situation was revealed when the unaudited results for the year ending 30th September 1974 became available. These suggested that, in the year to the end of September 1974, the Corporation had made a net loss of £9.9 million to which should be added a loss on the closure of the Australian subsidiary of £11.8 million, a total loss of £21.7 million. (Actual published results in the Annual Report were a net group loss of £8.3 million, a loss on the Australian subsidiary of £15.7 million and total group losses of £23.95 million). Net liquid assets at the end of September 1973 of £50.7 million had changed into net liabilities of £43.1 million (audited figures altered this to £35.2 million) and the Corporation's overdraft (UK and overseas) stood at £148 million (offset by bank deposits of £105 million).

1.8 These results were discussed at a meeting between BL, the banks and the Department of Industry on 27th November 1974. It was revealed that the position had worsened further since the end of September. BL was expected to reach the limit of its existing UK overdraft facilities of £152 million during December and a further cash outflow of £30 million was expected during January. It became clear that, in these circumstances, the banks were most unlikely to grant BL further facilities.

1.9 After a series of meetings involving Ministers, officials, BL and the banks the Secretary of State for Industry announced on 6th December that:

'because of the company's position in the economy as a leading exporter and its importance to employment both directly and through the many firms that are dependent on it, the Government are informing the company's bankers that the approval of Parliament will be sought for a guarantee of the working capital required over and above existing facilities.

In response to the company's request for support for its investment programme, the Government also intend to introduce longer-term arrangements, including a measure of public ownership. In order to help the Government in framing a scheme for this purpose, they propose to appoint a high level team, led by Sir Don Ryder, including members drawn from the Industrial Development Advisory Board, to advise on the company's situation and prospects, and the team will



consult with the company and the trade unions in the course of its work'.

*(Hansard, 6th December 1974, col 2115).*

1.10 On 18th December the Secretary of State laid the resolution before Parliament to enable the Government to guarantee a further £50 million lending by the banks to the Corporation under Section 8 of the Industry Act 1972. In doing so he announced the names of the Team members, Messrs R A Clark, S Gillen, F S McWhirter and C H Urwin, and described its remit as:

' . . . to conduct, in consultation with the Corporation and the trade unions, an overall assessment of BLMC's present situation and future prospects, covering corporate strategy, investment, markets, organisation, employment, productivity, management/labour relations, profitability and finance; and to report to the Government '.

*(Hansard, Wednesday 18th December, col 1727).*

1.11 In addition the following confidential guidelines were given to the Team, in amplification of the terms of reference, to indicate the matters which would need to be covered in the Report:

- (i) an assessment of the current financial position of the Corporation, with particular reference to profitability, cash flow and financial structure;
- (ii) an assessment of the recent performance of the Corporation and its strengths and weaknesses;
- (iii) a broad review of the future size and structure of the Corporation, including its modernisation and development programme;
- (iv) an assessment of the financial needs of the Corporation over the longer term (at least 4 years) and the type of financing required;
- (v) advice as to any special considerations which should be taken into account by the Government in determining the extent of public ownership, together with specific proposals on the terms for Government finance;
- (vi) the financial objectives which the Corporation should seek to attain bearing in mind the Government's statement on the White Paper on the Regeneration of British Industry that the National Enterprise Board will seek to secure an adequate return on that part of the nation's capital for which it is responsible and the consequences and cost of modifying these objectives to take account of other aspects of the national interest—e.g. employment (national and regional) and balance of payments;
- (vii) the role of employees in the company's decision making '.

## CHAPTER 2

### **Prospects for the industry**

[This Chapter sets out BL's assessments of total demand for cars and other types of vehicle in the UK and major overseas markets in the period 1975–85, comments on these assessments and gives the Team's conclusions. The detailed material in this Chapter is omitted for reasons of commercial security but the Team's general conclusions are given in paras 2 to 11 of the Summary.]

## CHAPTER 3

### **The right strategy for BL**

3.1 In the light of the assessment of future prospects for the motor industry set out in Chapter 2, the Team considered what strategy BL should follow over the next decade.

3.2 In doing so we had in mind the significance of BL to the United Kingdom economy. With a turnover of some £1,600 million in 1973/74, BL is one of the dozen or so largest companies in the private sector. Over the years it has been our biggest single exporter and accounts for some 38 per cent of total exports of motor vehicles and components. It has about 170,000 employees in the UK and provides several hundred thousand more jobs indirectly in industries supplying components and materials, in motor vehicle distribution and in service trades in the areas where it is concentrated. In the West Midlands BL accounts for over 10 per cent of male manufacturing employment directly and a much larger proportion indirectly. BL also has plants in the assisted areas, notably in Scotland, Wales and Merseyside.

3.3 The main strategic issues are as follows :

- (i) whether there is a future for BL as a vehicle producer;
- (ii) whether BL should diversify into non-vehicle activities or divest itself of its existing peripheral activities;
- (iii) whether BL should remain a producer of both cars and commercial vehicles;
- (iv) whether BL should remain a producer of both volume and specialist cars;
- (v) in which geographical areas BL's marketing effort should be concentrated.

#### **BL's future as a vehicle producer**

3.4 Some 94 per cent of BL's sales are of vehicles. The assessment of prospects for the vehicle industry in Chapter 2 indicates that, despite the recent drop in sales and current uncertainties about oil prices and economic conditions generally, some market growth can be expected over the next decade. Although competitive pressures will increase over this period, there is no reason why BL should despair of improving its position in this very valuable market. Vehicle production does not involve the kind of advanced technology which can only be financed in very strong and highly developed economies such as the United States. On the other hand, although there is likely to be an increasing trend towards local manufacture in the developing countries, there is enough scope for sophistication and refinement to give established producers with skilled labour forces a competitive edge in the developed countries. In general, therefore, vehicle production is the kind of industry which ought to remain an essential part of the UK's economic base. If the UK were to opt out of vehicle production, it is not easy to see where the process of opting out would end. If BL were to cease production, there would be a substantial loss of exports (£485 million in 1973/74) and an even

more substantial increase in imports (BL had sales of £843 million in the UK market in 1973/74). We are convinced, therefore, that BL must remain a major vehicle producer. However, in our view this can only be achieved if action is taken now to remedy the weaknesses which at present prevent it from competing effectively in world markets. These matters are dealt with in later Chapters of the Report.

#### **Diversification or divestment**

3.5 Since BL is already a very large company and should continue as a major vehicle producer, we do not believe that it should attempt to diversify its activities into unrelated sectors of industry. The question of whether particular components could be more economically produced by BL itself instead of being bought in from outside suppliers should of course be kept under review. It could indeed be advantageous for BL eventually to take over some minor producers of materials and components to improve security and quality of supply. But an extension of BL's interests outside the vehicle industry would only distract the management from the main task which faces the Corporation.

3.6 We have considered whether early action should be taken to dispose of those existing activities of BL which do not fall within the main car and truck and bus business. These are mainly in the Special Products Division and are discussed in detail in Chapter 13 of the Report. Some of these activities involve the production of specialist vehicles or mobile heavy equipment (eg Coventry Climax, Alvis, Aveling Barford) which have some link with the main vehicle business. Others (eg the foundries) are concerned in varying degrees with supplies to the main vehicle business. Others again (eg Prestcold) have no natural link with BL's main activities. We believe that the right strategy for BL on the possible divestment of these activities should, at this stage, be a neutral one. Following the Report, we recommend a detailed investigation of the future of these companies. The companies are described more fully in Chapter 13 of the Report.

#### **Cars and commercial vehicles**

3.7 In 1973/74 BL sold 853,000 cars and 167,000 commercial vehicles (mainly trucks and buses). We believe that BL should continue as a producer in both these sectors. As Chapter 2 showed there are considerable prospects for growth in the overseas market for heavy trucks. Moreover, if there is any possibility in the longer term that car demand will be restricted because of urban congestion, pollution and other environmental factors, energy conservation or economic developments which cannot at present be foreseen, the same factors are unlikely to apply in the same way or in the same degree to the demand for trucks and buses. Measures to restrict car usage may, for example, lead to an increase in demand for buses. The right strategy for BL is therefore to continue as a producer of both cars and commercial vehicles.

#### **Volume cars and specialist cars**

3.8 Having accepted that BL should remain a major producer of cars, we considered whether it should continue as at present to cover the full range of the market from the 'small/light' sector (represented by the Mini) to the luxury sector (represented by the Jaguar). In the past the more expensive

models produced by BL (not only Jaguars, but also Rovers and Triumphs) have proved more profitable, and a less satisfactory return has been earned on volume cars, particularly the Mini. We therefore examined whether BL should adopt a strategy of abandoning the bottom end of the volume car market. This would mean in effect that no replacement would be brought forward for the Mini. We are strongly of the view that this would be the wrong strategy. The fact that BL is represented in all the major sectors of the car market is a potential strength. This is particularly true at a time when there is a good deal of uncertainty about future trends in car demand. It is possible that pressure for energy conservation will shift demand in favour of the smaller cars. This may in turn make the small car business relatively more profitable than in the past. Moreover, producers with models at the small end of the market have a better chance of securing customers who are buying a car for the first time and may retain these customers, as their income increases, in the higher sectors of the market. There are also important considerations affecting the national economy. In 1974 16 per cent of total UK sales were in the small and light sectors of the car market, in which the Mini competes. The Mini accounted for nearly half of these sales. If BL were to opt out of this sector of the market, there would undoubtedly be a very substantial increase in car imports. The Mini makes up a substantial proportion of BL's exports, particularly in Europe. In 1973/74, nearly two-thirds of the cars sold by BL in Western European export markets were Minis. It ought therefore to be both in BL's interest and in the national interest to remain in the small/light sectors of the car market as well as the medium, large, luxury and sports car sectors.

3.9 While it is to BL's advantage to be represented in all the major sectors of the car market, BL has suffered from having an unusually large number of different models and power transmission units. At present BL has nine different saloon car body shells and twelve basic car engine types. If BL is to compete effectively there must be a substantial programme of product rationalisation, competition between different BL models in the same sector must disappear and there must be a much greater common use of components, suspensions and structures. There is a similar need for rationalisation in truck and bus production.

3.10 It has been argued that BL will be unable to compete effectively in the production of volume cars because it cannot match the very high volumes of the major European and Japanese producers, notably Volkswagen, Toyota, Nissan, Fiat and Renault. We do not accept this. But BL's strategy must be to build on the reputation for quality which it enjoys in the more expensive sectors of the market. All its models, throughout the product range, should have sufficient distinction to ensure a competitive edge.

### **Markets**

3.11 The assessment of prospects for the industry in Chapter 2 indicated that, while little growth is expected in the UK market and also (although this may be pessimistic) in the US market, substantial growth in demand is expected in Western Europe. At present, however, BL's market share in Western Europe is less than 3 per cent. We believe that BL must aim, over the next 10 years, to secure a higher share of this expanding market. BL also has

only a small share of the Western European market for trucks and buses (about 1 per cent). Although truck and bus demand is likely to grow more rapidly in the developing countries and BL should therefore maintain its effort in these markets (particularly in countries such as Iran, Nigeria and Turkey), there is nevertheless scope for a major development of BL truck and bus sales in Western Europe.

### **Summary**

3.12 Our recommendations about BL's strategy over the next decade are therefore as follows:

- (i) BL should continue to be predominantly a vehicle producer and should not diversify its activities into other sectors of industry;
- (ii) BL should at this stage adopt a neutral policy towards the divestment of its existing peripheral activities, and following this Report there should be a detailed investigation of the future of these companies;
- (iii) BL should remain a producer both of cars and of trucks and buses.
- (iv) BL should continue to produce both volume and specialist cars and should compete in all the major sectors of the car market ranging from the small/light sector to the luxury sector;
- (v) there should, however, be a substantial programme of product rationalisation;
- (vi) In order to compete effectively with the larger volume producers, BL must build on the reputation for quality and distinction which it enjoys in the more expensive sectors of the market. All its models, throughout the product range, should have sufficient distinction to ensure a competitive edge;
- (vii) the main thrust of the marketing effort outside the UK over the next decade must be to secure a larger share of the Western European market, both for cars and for trucks and buses.

## CHAPTER 4

### Financial position

4.1. The purpose of Chapters 4 to 13 of this Report is to assess BL's present capability for carrying out the strategy outlined in Chapter 3, to identify the weaknesses, and to recommend action to remedy these weaknesses.

4.2. Chapter 4 is concerned with BL's financial position. This is examined under the following main headings:

- (i) BL's trading results since it was formed in 1968;
- (ii) the provision made over this period for investment in fixed capital and for the necessary increases in working capital;
- (iii) the latest profit forecast for the period to end September 1975;
- (iv) the latest forecast of the cash position to end September 1975.

#### Trading results 1968/74

4.3. A summary of the trading results of BL since its formation is as follows:

TABLE 4.1  
BL trading results

	<i>Years ended 30th September</i>						
	<i>1968</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>	<i>1972</i>	<i>1973</i>	<i>1974</i>
Vehicle sold ('000)	1,050	1,083	984	1,057	1,127	1,161	1,020
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Sales	974	970	1,021	1,177	1,281	1,564	1,595
Trading profit	45	46	14	46	41	58	19
Interest	7	5	10	14	9	7	17
Profit before tax	<u>38</u>	<u>41</u>	<u>4</u>	<u>32</u>	<u>32</u>	<u>51</u>	<u>2</u>
As percentage of sales	3.9%	4.2%	0.4%	2.7%	2.5%	3.3%	0.1%
<i>Note: The above profits are after charging:</i>							
Depreciation:							
Properties	3	3	3	3	3	3	4
Plant	24	24	24	25	24	26	27
	<u>27</u>	<u>27</u>	<u>27</u>	<u>28</u>	<u>27</u>	<u>29</u>	<u>31</u>
Tooling amortisation	14	14	15	19	16	15	11
	<u>41</u>	<u>41</u>	<u>42</u>	<u>47</u>	<u>43</u>	<u>44</u>	<u>42</u>

The results for the year ended 30th September 1968 (except for vehicles sold) include fourteen months trading of British Motor Holdings Limited.

4.4. The annual output, in terms of vehicles sold, has not varied significantly since the formation of the Group, the highest and lowest years being within 9 per cent of the average annual sales volume for the entire period. The limiting factor throughout the period has been production capability, with

the two worst years, 1970 and 1974, having suffered from heavy production losses.

4.5. The trend of trading profits before interest broadly reflects the trend of volumes produced, with particularly poor results in 1970 and 1974. The 1974 results were also affected by restrictions on passing on cost increases under the counter-inflation legislation and as a result of competitive pressures in export markets.

4.6. The main point which emerges from Table 4.1 is that the profit before tax, throughout the period, has been inadequate. As a percentage of sales it has never been higher than 4.2 per cent (1969) and the overall rate for the whole period was only 2.3 per cent.

4.7. Despite this low level of profits BL has over the period distributed nearly all of them as dividends. In our view this policy was clearly wrong. The split between dividends and retentions is shown in the following table:

TABLE 4.2  
Deductions and appropriations from profits  
Years ended 30th September

	1968	1969	1970	1971	1972	1973	1974	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Profit before tax	38	41	4	32	32	51	2	200
Tax deferred	—	—	—	—	4	12	15	31
Tax payable	18	20	2	14	7	11	(6)	66
Total tax	18	20	2	14	11	23	9	97
Profit after tax	20	21	2	18	21	28	(7)	103
Minority interest	(1)	(1)	(2)	(1)	2	(1)	(1)	(5)
Extraordinary items	—	(2)	(6)	(1)	1	—	(16)	(24)
Profit/(loss) after all items	19	18	(6)	16	24	27	(24)	74
Dividends	15	15	5	11	12	9	3	70
Retentions	4	3	(11)	5	12	18	(27)	4

4.8. Over the whole period the net profits after charges including extraordinary items amounted to £74m, of which £70m has been paid out by way of dividend. There should however have been substantial retentions to finance the increased cost of replacing fixed assets and additional working capital. Even if all the profits of £74m had been retained, together with the £49m of new funds raised by a rights issue in 1972, this would have been inadequate to meet BL's capital needs.

### Capital expenditure

4.9. Apart from retained profits and new capital, the major source of funds to finance capital investment is the charge made by a company against its profits for the depreciation of existing assets. Although BL's accounting policies have been conservative, the charge for depreciation in the accounts, as a measure of the annual investment required, has been inadequate. This is partly due to the fact that a high proportion of the plant, throughout the

period 1968 to 1974 had already been fully depreciated. Depreciation of factory plant is provided on a straight line basis over periods ranging from eight to ten years. Amortisation of special tools, dies and jigs is on a straight line basis over three years or less in certain circumstances, and revenue expenditure on research and development is written off as incurred. The extent to which the fixed assets in use by BL have already been fully depreciated in earlier years is shown in the following table:

TABLE 4.3

Age analysis of plant in use by BL at 30th September 1974

<i>Year of Acquisition To 30th September</i>	<i>Cost £m</i>	<i>Accumulated Depreciation £m</i>	<i>Net Book Value £m</i>
1974	53	3	50
1973	49	15	34
1972	20	7	13
1971	28	13	15
1970	21	14	7
	<hr/>	<hr/>	<hr/>
	171	52	119
1969	20	15	5
1968	28	23	5
1967	21	19	2
1962-1966	78	78	—
1957-1961	112	112	—
1952-1956	17	17	—
Pre 1952	2	2	—
	<hr/>	<hr/>	<hr/>
	449	318	131

In fact the table understates the proportion of old plant since in today's prices the cost of the plant acquired many years ago would be much higher.

4.10. Table 4.3 therefore shows not only that BL is still using an unacceptably high proportion of old plant but also, since this old plant was fully written off some years ago, that the provision made for replacement over the period since 1968 has been lower than it should have been. The only reason why BL has been able to record the slender profits set out in Table 4.1 is that these were arrived at without setting aside funds for replacing a substantial part of BL's plant.

4.11. As a result of these factors BL's actual capital expenditure over the period since 1968 has been modest as is shown in the table below:

TABLE 4.4

BL's capital expenditure 1968-74

<i>Year to 30th September</i>	<i>Plant £m</i>	<i>Properties £m</i>	<i>Total £m</i>
1968	27	4	31
1969	23	6	29
1970	34	6	40
1971	25	4	29
1972	20	2	22
1973	30	6	36
1974	53	24	77

**Net operating assets**

4.12. There has also been a rundown to a critical level in BL's net



operating assets—ie the working capital needed to finance stocks and day to day trading—since 1971. This is shown in the following table:

TABLE 4.5  
BL's net operating assets

	As at 30th September						
	1968	1969	1970	1971	1972	1973	1974
	£m	£m	£m	£m	£m	£m	£m
Sales for the year	974	970	1,021	1,177	1,281	1,564	1,595
Net operating assets	98	125	176	221	150	122	139
Percentage of sales	10.0%	12.9%	17.2%	18.8%	11.7%	7.8%	8.7%

### Effects of inflation

4.13. It is clear therefore that, even in a non-inflationary economy, BL would by 1974 have been in an extremely vulnerable position. For several years it had been spending far too little on replacing its fixed capital and had been running down its working capital. Inflation means however that even to maintain the expenditure on plant replacement and to finance working capital at the *same* level in real terms, much higher levels of profit are required. It has been calculated that, at current rates of inflation, BL would need to earn £100m more profit a year than it does at present merely to finance *inflationary* increases in fixed and working capital, ie to stand still. This ignores any provision to make up for past under-investment, and makes no allowance for dividends.

[Paragraphs 4.14 to 4.27 analyse BL's profit and cash forecast and borrowing position up to the end of September 1975.]

4.28. Very large sums will therefore need to be provided from external sources to finance the new capital investment and other action required to make BL a viable business. The action required is described in the following chapters under various detailed headings. The cost of the action required is analysed in Chapter 14 and the financing of the additional expenditure is dealt with in Chapter 15.

## BL's capital structure, borrowings and borrowing powers

### Share and loan capital

#### *Share capital*

4.1.1. The present authorised share capital of BL is £175m in 700 million ordinary shares of 25p each. The issued share capital at 30th September 1974 comprised the following:

	<i>Ordinary Shares of 25p each</i>	
	<i>Number</i>	<i>Amount</i>
Fully paid	592,658,414	£148,164,603
Partly paid—issued under the British Leyland Share Incentive Scheme	9,668,644	£171,992
	602,327,058	£148,336,595

4.1.2. The market price of the ordinary shares at mid-March was around 8p and the market capitalisation of BL was around £48m.

4.1.3. The amount paid on the partly paid shares at 30th September 1974 totalled £171,992 (5 per cent of the subscription price), the balance of the subscription price being £3,267,827; in certain circumstances, relating to termination of employment, the Board is empowered to restrict the subscription price to the par value of the shares (which would total £2,417,161). The subscription prices of these partly paid shares which were issued at various times between August 1970 and July 1972 varied between 30p and 51p, the price for the bulk of them being between 30p and 40p.

4.1.4. The total issued and fully paid share capital of 593m ordinary shares of 25p each was issued as to 537m at the time of formation of BL (in exchange for shares in the two constituent companies), 54m by way of a rights issue in 1972, and the balance of 2m on conversion of Loan Stock (referred to below) and full payment of Incentive Scheme shares.

#### *Convertible Unsecured Loan Stock*

4.1.5. On 24th February 1972 a rights issue of  $7\frac{1}{4}$  per cent Convertible Unsecured Loan Stock ('the Loan Stock') repayable at par in 1982-87 was made. The Loan Stock carries the right, exercisable on 31st March each year, to convert into ordinary shares at the rate of 25p nominal of ordinary share capital for every 55p nominal of Loan Stock. The total balance of the Loan Stock outstanding at 30th September 1974 was £26,766,669 (which, if fully converted, would represent 48,666,670 shares). In addition, under the terms of the share incentive scheme, there is a balance of £156,149 outstanding on part of the Loan Stock which had been subscribed by members of the share

incentive scheme and on which only 5 per cent had been paid at 30th September 1974. The market price of the Loan Stock at mid-March was 41p (ex dividend) and the market value of the Loan Stock as a whole was some £11m.

#### *Other borrowings*

4.1.6. In addition to the Loan Stock, at 30th September 1974 the following loans were outstanding, all of which with minor exceptions are repayable at par:

	£'000	£'000
<i>Secured:</i>		
6½% Debenture Stock of Leyland South African Limited 1971-81		85
7½% Debenture Stock of Aveling-Barford Limited 1986-91		879
7¾% Debenture of Ashok Leyland Limited 1979-83		1,066
Other loans redeemable after more than 5 years		1,013
		<u>3,043</u>
<i>Unsecured:</i>		
<i>BL:</i>		
6% Unsecured Loan Stock 1998-2003	12,436	
6.1% Unsecured Loan Stock 1977-82	3,376	
7½% Unsecured Loan Stock 1987-92	9,933	
8% Unsecured Loan Stock 1998-2003	10,869	
5¾% Unsecured Loan of 60 million Swiss Francs 1979-84 (repayable in instalments from 1979)	8,696	
7¾% Department of Trade and Industry Loan redeemable in 1982	10,000	
7½% 100 million French Francs Bonds 1977-87 (repayable in instalments from 1977)	9,058	
<i>Leyland Innocenti S.p.a.:</i>		
9¾% 9,000 million Italian Lire Loan 1976-84 (repayable in instalments from 1976)	5,837	70,205
		<u>73,248</u>

#### *Borrowing powers*

4.1.7. The borrowing powers under the Articles of Association are restricted to one and one half times the aggregate of BL's issued share capital and the reserves of the Group. Based on the balance sheet at 30th September 1974 this limit is £390.3m.

4.1.8. The borrowing limits imposed by the Loan Stock and other loan Trust Deeds are:

- (a) The total amount outstanding of monies borrowed by BL and specified UK subsidiaries may not exceed one and one half times the aggregate of the share capital of BL and the reserves, as defined, of the UK Group, less the book value of investments in overseas subsidiaries. Based on the balance sheet at 30th September 1974, this limit is £305m.
- (b) The total aggregate amount outstanding of all secured borrowing of BL and all borrowings of UK subsidiaries other than BLUK may not exceed 30 per cent of the limit at (a) above. Based on the balance sheet at 30th September 1974, this limit is £91.5m.

There are also restrictions on the disposal of the whole, or substantial parts of, the UK business.

## BL's year-end Balance Sheets: 1968-74

	1968	1969	<i>As at 30th September</i>			1973	1974
	£m	£m	1970 £m	1971 £m	1972 £m	£m	£m
<b>Capital employed:</b>							
Fixed assets	170	173	184	181	176	203	240
Tools, dies and jigs	17	17	18	17	20	32	46
Trade investments	15	22	25	13	16	11	10
Net operating assets	98	125	176	221	150	122	139
Net liquid assets	18	1	(79)	(90)	6	51	(35)
Corporation tax	(9)	(10)	(2)	(8)	(4)	(5)	—
	<u>309</u>	<u>328</u>	<u>322</u>	<u>334</u>	<u>374</u>	<u>414</u>	<u>400</u>
<b>Financed by:</b>							
Share capital	134	134	134	135	148	148	148
Reserves	104	105	94	99	121	139	112
	<u>238</u>	<u>239</u>	<u>228</u>	<u>234</u>	<u>269</u>	<u>287</u>	<u>260</u>
Loan stock	—	—	—	—	27	27	27
Minority interests	9	10	12	12	8	10	11
Loans	62	79	82	88	68	71	73
Deferred exchange	—	—	—	—	—	9	6
Deferred taxation	—	—	—	—	2	10	23
	<u>309</u>	<u>328</u>	<u>322</u>	<u>334</u>	<u>374</u>	<u>414</u>	<u>400</u>
The net operating assets are analysed as follows:							
Inventory, less deposits	207	251	292	338	305	354	472
Creditors	(201)	(222)	(245)	(240)	(262)	(363)	(479)
	6	29	47	98	43	(9)	(7)
Debtors	131	148	167	165	160	189	192
Taxation and other current liabilities	(39)	(52)	(38)	(42)	(53)	(58)	(46)
Net operating assets	<u>98</u>	<u>125</u>	<u>176</u>	<u>221</u>	<u>150</u>	<u>122</u>	<u>139</u>

## CHAPTER 5

### **Product range and markets**

[In Chapter 5 of the Report the Team make detailed recommendations about BL's future product and marketing policies. For reasons of commercial security, these have not been published, but they are dealt with in general terms in paragraphs 20 to 24 of the Summary.]

## CHAPTER 6

### **Engineering**

6.1. An important factor in the success of the policy of product and component rationalisation that we recommend in the previous Chapter will be the organisation of the engineering resources available to the Corporation and the facilities in which to design and test the new products. The Team consider that the car and commercial vehicle operations should each have a single and clear cut line of management responsibility for product development and product development engineers in one location with adequate supporting facilities.

#### **Organisation**

6.2. Within a corporation manufacturing cars or commercial vehicles there is a variety of engineering talents. Some of these are concerned with the development of new products, others are more closely associated with the manufacture of the current models. The first group includes the following: product planners who plan the outline of a model for a particular place in the market; styling engineers who design the model to conform to parameters set by the product planners relating to certain basic size characteristics of the model, and vehicle engineers who translate the ideas of product planners and styling engineers into requirements for production. The second group of engineering skills relates to production. They include the task of ensuring that the model prototypes can be manufactured in volume on a production line up to an acceptable standard, and the responsibility for plant and machine layout and performance.

6.3. At present in BL the engineers involved in product development are dispersed among the different product divisions. We recommend that all these talents should be the responsibility of a single product development organisation within the car operation, and there should be a similar arrangement for

trucks and buses, which would have unified management responsibility for all the skills necessary for designing and developing new cars (or commercial vehicles). The central engineering capability would pool all the scarce design and planning resources in order to provide the designs for the rationalised models that we recommend in Chapter 5. We believe that the creation of this single product planning group is an urgent preliminary step in reorganising BL's management structure. We have detailed proposals for the organisation of this group which will be made available to the new management.

6.4. We recommend that the engineering skills which relate to the manufacturing process should continue to be designated as line responsibilities under the manufacturing management.

6.5. The central engineering capability will perform one other important function. The most striking example of the fragmented engineering approach in the Corporation at present is the quantity of part numbers. We were told that BL has 4 to 5 times the quantity that Ford (UK) has. This increases handling costs, slows production processes and magnifies scheduling and purchasing problems. The reason is that engineering staffs, who create the specifications for parts, are not in a single organisation with the maximum degree of co-ordination. The numbers they give to release documents, which become the parts' numbers, are not on a common system. Engineering effort is at present being wasted on trying to achieve standardisation. In our view this can only be achieved satisfactorily through a central engineering organisation. The organisation should also be able to achieve cost reductions through a corporate, unified approach to: materials specifications; package standards; drawing office standards, and test procedures. In addition it should assist in defining responsibility and creating methods for design cost control and product modifications.

### **Facilities**

6.6. An important aspect of the design and development process is the ability to test components and complete models in the laboratory and in all driving conditions. At present BL has office, workshop and laboratory space for their car divisions at scattered points at 5 different sites. They have no test track, using the facilities at the Motor Industry Research Association (MIRA) establishment at Nuneaton, and a few other scattered locations. The Truck and Bus Division has workshop and laboratory facilities and a test track at Leyland.

6.7. We recommend that BL should plan for a central complex of laboratories and workshops to be built by 1979 for its car operations. As an interim measure temporary facilities, probably at Solihull, should provide the centre of control for all car engineering personnel. The Truck and Bus facilities at Leyland should be extended as a matter of urgency.

6.8. The Team have not been able to examine all the implications of the proposal to acquire a test track for BL. A track is urgently needed. [Various possibilities are discussed; these are omitted for reasons of commercial security.] We recommend that the new BL management should take an early decision on this.

## CHAPTER 7

### **Procurement**

[This Chapter discusses BL's purchasing arrangements and relationships with its suppliers and is omitted for reasons of commercial security.]

## CHAPTER 8

### **Production**

8.1. In order to become an efficient, profitable producer of cars and commercial vehicles BL must remedy the shortcomings in its manufacturing facilities and techniques. The two main aspects on which urgent action is required are:

- (i) The need to reorganise production facilities to provide for specialisation in particular manufacturing activities.
- (ii) The replacement of outdated and inefficient plant and machinery.

#### **Plant location and activities**

8.2. There are 55 main manufacturing plants in BL—the breakdown at present is as follows:

- 29 involved in car production
- 13 in the Truck and Bus Division
- 11 in the Special Products Division
- 2 in Prestcold

This Chapter is concerned mainly with the car and truck and bus operations and those foundries which are at present under the Special Products Division.

8.3. The main concentration for car operations is in the Midlands around Birmingham, Coventry, Solihull, Oxford and Swindon. Truck and bus operations reflect the locations of the original companies which, at one time or another, have been merged into BL and are scattered throughout the country from Scotland (Glasgow and West Lothian) through Leyland to Bristol, Lowestoft, Southall and Park Royal. The companies under the Special Products Division are at Grantham, Leicester, Nottingham, Coventry, Tipton (Staffs) and Birmingham. In addition, the foundry operations are at Tipton, Leeds, Keighley, Wellingborough (Northants), Longbridge, Coventry and Farington in the Leyland complex.

8.4. In examining the operations in which each plant is involved, it is useful to separate the different functional processes associated with car manufacture. They are:

- (a) Body and assembly operations: from stamping panels through the assembly of the body (body in white), painting, trim and final assembly of the complete car.
- (b) Power train and chassis operations: the foundry work on producing castings for engines and cylinders; the manufacture of engines, suspensions (axles and chassis) and transmissions.
- (c) Parts: the supply of sub-assemblies and components—electricals, brakes, radiators etc.

The functional categorisation of truck and bus operations is similar except that in the case of buses, there is a sharper distinction between the manufacture of main components—engines, axles and transmissions—and the final assembly which is mainly in the hands of specialist coach builders.

#### **Body and assembly operations**

8.5. The major inherited problem, created by the dispersed nature of these locations, is the difficulty of controlling and supervising the movement of manufactured parts and sub-assemblies between plants. This movement is apparent in the Truck and Bus Division where there is a complicated routing cross-pattern as panels and major assemblies move from one plant to another. For example, the plant at Bristol, besides producing single and double-deck bus chassis, takes axles from Bathgate and engines from Leyland and supplies chassis to coachbuilders in Leeds and Lowestoft. Some movement of parts and material between plants is essential. For human and financial considerations, BL clearly cannot start afresh and plan new plant layouts on 'green field' sites with all assembly and finishing operations in one place. BL has to live with its existing plants and it has made considerable progress towards the rationalisation of movement between them. There is still, however, some unnecessary movement, particularly in the car divisions, which transport unpainted body shells to another location for paint, trim and final assembly.

8.6. We recommend that the Corporation should expedite the rationalisation of its assembly operations. The aim should be to bring together body assembly processes so that individual plants are associated with one or more model lines from receipt of the pressed out panels to final assembly. This will avoid the wasteful transport of unpainted bodies from one location to another.

#### **Engines, suspensions and transmissions**

8.7. The major programme of product rationalisation called for in Chapter 5 requires that activities associated with the manufacture of major components should be brought together. Plants should specialise in engines, gear-boxes, and chassis without distinction by model type and without being involved in the body assembly operations. The families of engines and gear-boxes should be fewer, be common to different model types and have similar characteristics throughout the range.



### **Parts manufacture**

8.8. There is a considerable degree of vertical integration in BL in that the Corporation owns its own foundries and companies specialising in parts and sub-assemblies. The car divisions are responsible for five plants involved in the manufacture of carburettors, radiators and other components. The Truck and Bus Division has similar interests in BUTEC. Although wholly owned by BL, these plants sell components to other motor manufacturers, but in many instances supply only part of BL's requirements. They cannot rely on a steady run of production orders from BL to maintain their profitability. Similar type parts are also produced in various locations so that the expertise that goes with their manufacture is dispersed throughout the Corporation. We recommend that the Corporation rationalise its present system of parts manufacture so that similar parts are produced in the same location.

8.9. We also recommend the appointment of a senior executive responsible for parts manufacture. He should achieve the following objectives: a better degree of self-reliance in the Corporation on its own parts production; an improvement in the flow of parts supplied into the power train and body assembly operations; and a major reduction in the quantity of part numbers by a deliberate programme of commonisation.

### **Plant layout**

8.10. Besides the rationalisation of activities between plants, we recommend that BL should improve the layout of processes within plants. Many layouts are not efficient; the piecemeal expansion of facilities over the years has compromised original plans and added appreciably to the costs of handling materials. We consider that substantial economies could be achieved almost immediately by an early plant layout improvement programme. We have specific proposals which can be made available to the new management.

### **Investment in plant and machinery**

8.11. The serious under-provision for depreciation we have observed in Chapter 4 has been brought out dramatically in the evidence we have heard and seen about the under-capitalisation of BL's production facilities. In the automotive industry, most machinery is replaced after 8-12 years. In BL more than half the machines and equipment are over 15 years old. Apart from the need to introduce new models, BL would in any event need a heavy programme of investment to bring its machines and equipment up to modern working standards. [Detailed information in this paragraph and in an Annex about the age of BL's plant and machinery is omitted for reasons of commercial security.] This record of under-investment is the main reason for the low productivity of BL's work force compared with say Fiat or Volkswagen. It also engenders low morale among the work force and worsens industrial relations.

8.12. The main area in which capital under-provision is most in evidence is in the foundries. BL owns 7 foundries which make about 54 per cent of the

Corporation's requirement for grey iron and 20 per cent of its requirement for aluminium. The productivity levels are judged to be less than half those in plants which use more modern equipment. The Team are convinced that a substantial programme of investment is needed for BL foundries not least to bring them up to the safety and environmental standards now required. This is not, however, a problem confined to the Corporation. It is a national issue which concerns the United Kingdom's industrial base. We therefore recommend that, once the broad outlines of BL's future are decided, discussions should be held with representatives of the foundry industry, both inside and outside BL, to plan a strategy of development and investment for the future. In the meantime, however, British Leyland should begin a programme for the improvement of their foundries at an estimated cost, in today's prices, of £50 million.

8.13 The programme of modernisation of facilities that BL must undertake can, in most areas, be associated with model changes. When tooling up for a new product, the opportunity should be taken to improve facilities. This is not a policy which BL have followed in the past. There have been occasions when facilities for a new product have been 'tacked on' to the plant producing the existing product. This attitude must change. BL must adopt a co-ordinated and comprehensive approach to its product rationalisation programme which would include an element for the automation of existing work processes. We believe that this, together with a programme of improved plant layout and the implementation of the Team's other recommendations, will bring production efficiency up to the level of the Corporation's competitors. We do not, however, recommend that BL should build any major new plant on a green field site in a new location. There will be exceptions to this in the case of foundries and possibly certain component manufacturing operations.

### **Summary**

- 8.14. Our recommendations on BL's production facilities are as follows:
- (i) BL should reorganise its car manufacturing operations to provide for specialisation in body assembly work, power train and transmission or parts manufacture.
  - (ii) The existing plants in the body assembly group should be engaged in all operations from receipt of stamped panels to final assembly of complete vehicles.
  - (iii) Plants in the power train and transmission group should specialise on a functional basis and not be involved in body assembly work.
  - (iv) The truck and bus operations should be similarly organised so that, as far as is practicable, different plants specialise in particular activities.
  - (v) BL should rationalise its system of parts manufacture so that similar parts are produced in the same location.
  - (vi) Among the organisational changes necessary, BL should appoint a senior executive with responsibility for all parts manufacture.
  - (vii) BL should undertake an urgent programme to improve plant layout.

- (viii) BL's expenditure on equipment to improve working practices and automate manufacturing processes should, in most areas, be associated with model changes.
- (ix) Except for foundries and possibly certain component manufacture, there seems no need for BL to build any major new plant on a green field site in a new location.
- (x) The future of BL's foundries will need to be considered in a wider national context. In the meantime, however, BL should plan for the improvement of its own foundries.

## CHAPTER 9

### Industrial relations

9.1. Other chapters of this Report discuss a whole range of proposals which we believe will help to make BL more efficient and competitive—fewer and better models, improved facilities for design, engineering and production, and changes in organisation and management. These proposals cannot be implemented without the investment of very large sums of public money. But, even with these new plans and new resources, the success of BL over the next decade will depend mainly on the skills, efforts and attitudes of its 170,000 employees.

9.2. BL has suffered a good deal in recent years from adverse publicity about its work force. Its strike record is continually discussed in the Press and there have been stories about serious over-manning in particular plants. These reports are particularly damaging to BL's reputation in overseas markets. We do not subscribe to the view that all the ills of BL can be laid at the door of a strike-prone and work-shy labour force. While BL has suffered seriously from interruptions to production, these have often been the result of factors outside the control of BL's work force—breakdowns in plant and equipment, faulty scheduling, shortages of materials and components, and external industrial disputes. Moreover, some BL plants, for example, in South Wales, have an excellent industrial relations record. Similarly, one of the main reasons why BL's workers produce less than workers at Fiat or Volkswagen is that so much less has been spent by BL on new plant and equipment. Nevertheless, when these necessary allowances and qualifications have been made, there remain two problems which must be dealt with in any programme for BL's future over the next decade:

- (i) The interruptions to production resulting from industrial disputes within BL must be reduced.
- (ii) More effective use must be made both of BL's existing capital investment and of the planned additional capital investment.

The scale of these problems is set out in the following paragraphs.

### Strikes: Scale of the problem

9.3. BL has estimated that in 1973/74 it lost a total of 23.8 million man-hours through industrial action, of which some 9.6 million man-hours were attributable to disputes within BL. A comparison with figures for earlier years is given in the following table:

TABLE 9.1  
Man-hours lost by industrial disputes at BL

<i>Financial years to end September</i>	<i>External</i>	<i>Internal</i>	<i>Total</i>
1969/70	4.0m	5.0m	9.0m
1970/71	0.3m	8.0m	8.3m
1971/72	3.4m	10.0m	13.4m
1972/73	3.9m	7.4m	11.3m

9.4. It has been pointed out that the man-hours lost in 1973/74 represent only 3 per cent of the total of some 300 million man-hours a year available to the company from its manual workers. In fact, however, the effect is much more severe than these figures would indicate. This is partly because the profitability of vehicle production is very sensitive to degrees of utilisation of capacity. Moreover, much depends on the timing of industrial disputes. They can have particularly damaging effects when total market demand is high, as for example in 1973. BL's inability to supply as a result of industrial disputes was a contributing factor to financial difficulties in the latter part of 1974. BL estimated that it lost 37 per cent of scheduled production during October and November 1974. About half of this was due to quality faults, facility failures, programme changes and absenteeism. But the remaining loss (19 per cent of scheduled production) was due to industrial disputes and most of this (15 per cent of scheduled production) was due to disputes within BL. The timing of particular strikes can also critically affect model launches and the winning of contracts. For example, in the early months of this year, despite the efforts of the unions involved, the engine tuners' strike at Cowley delayed the launch of the new ADO 71 model from the beginning to the end of March and the strike at Castle Bromwich resulted in the loss of a South Korean contract. It must be recognised that BL's experience is not unique in the British motor industry. Indeed, in the first nine months of 1974 BL's record was rather better than that of Ford or Chrysler (48 hours per employee lost compared with 53 and 50 respectively). But BL's performance must be improved if it is to compete effectively in world markets.

### Productivity: Scale of the problem

9.5. On labour productivity many of the comparisons made between BL and its competitors both in the UK and overseas are unfair and unreliable. For example, *The Economist* published on 1 March a table showing that in 1973 BL produced only 5.9 vehicles per man compared with 8.3 for Ford UK, 10.1 for Ford Germany, 11.6 for Volkswagen and 14.6 for Renault. But these comparisons do not take into account the type and sophistication of vehicles produced (eg BL's luxury cars and heavy trucks and buses) or the extent to which bought-in materials and components are used.

9.6. Nevertheless, BL accepts that, comparing like with like, its labour productivity is often less than that of its competitors. [An example given here

is omitted for reasons of commercial security.] Over BL's car operations as a whole, considerably more manpower is used than the theoretical standard manpower required. This is partly because of old and outdated plant and machinery and partly because of currently agreed manning levels.

9.7. In considering how to deal with these problems, the Team did not attempt to allocate blame for past short-comings. Instead, the approach was to assess the scope for improvement in the future and to propose action which should achieve this improvement.

9.8. We recommend in Chapters 5, 6 and 8 of the Report that there should be a major new capital investment programme to modernise BL's design, engineering and production facilities and to provide for a new rationalised model range. Against this background, the Team believe that it is both essential and feasible to look for significantly greater co-operation between management and workers than in the past, leading to fewer industrial disputes, more realistic manning levels and more mobility and interchangeability of labour. In our discussions with BL trade union representatives, it was repeatedly stressed to us that BL's workers wanted the Corporation to be a viable and successful enterprise. They accepted that, once the deficiencies of past under-investment had been remedied and any necessary changes made in organisation and management, BL could not expect any continuing subsidy from the Government and should be able to compete effectively in world markets. We found ample evidence that BL's employees at all levels want to make their contribution to solving BL's problems. The responsible rôle adopted by the trade unions at BL over the disputes of recent months is symptomatic of this new attitude. It would be disastrous if, after the Government announced substantial assistance for BL and the capital expenditure programme was put in hand, the work force no longer felt the same obligation to help constructively in solving BL's problems.

9.9. We must therefore find ways of sustaining and developing the present constructive and realistic approach of BL's workers to the company's situation. We recommend that the progress of the capital expenditure programme and the injection of new finance by the Government should be staged. This is dealt with in more detail in Chapter 15 on the financing of the programme. It must be made clear that each stage will depend on evidence that some tangible contribution is being made both by BL's work force and its management to the reduction of industrial disputes and the improvement of productivity.

9.10. The improvement of productivity will inevitably mean a gradual reduction in the number of workers required to produce a given number of vehicles. If, however, the capital expenditure programme goes ahead and BL achieves the increased sales which are planned, any manpower reductions from increased productivity will be partly, perhaps mainly, offset by the expansion of BL's capacity, and the additional manpower needs arising from that. Moreover, although natural labour wastage has drastically reduced over the past year, it is still averaging 7 and 8 per cent and past experience has shown that a substantial response is made to calls for voluntary redundancy from older workers. Even so, careful forward manpower planning will be needed,

particularly in areas where some major rationalisation of production facilities is undertaken.

#### **Action to improve industrial relations**

9.11. The essence of our proposals is to promote a deeper sense of commitment by BL's workers to the success of the enterprise on which their livelihood depends. To make this possible there must be a major effort to improve industrial relations within BL. We have considered what specific measures should be taken under three main headings:

- (i) Payment systems.
- (ii) Collective bargaining.
- (iii) Industrial democracy.

These matters, as well as BL's situation and prospects generally, were discussed by the Team at meetings held jointly with representatives of the Executive Council of the Confederation of Shipbuilding and Engineering Unions and an elected group of BL shop stewards and staff representatives. The Team also had a meeting with elected representatives of BL's middle management.

#### **Payment systems**

9.12. Until 1971 BL workers engaged directly in production were paid largely on a piecework system, and indirect workers had pay structures based on some derived relationship with piecework earnings. In 1970 BL took the view that the piecework system was a major source of friction, dispute and inequity in the Corporation. The major disadvantages as BL saw it were as follows:

- (i) Piecework involved a large number of individual negotiations and bargains at shop floor level.
- (ii) These negotiations took up a great deal of time and frequently led to industrial disputes—for example, arguments over payment for waiting time.
- (iii) The introduction of a new model or a modification of a model involved a new round of piecework negotiations and potential disputes. (BL claims that the piecework negotiations over the Clubman variant of the Mini took six months and cost 18,000 units in lost production.)
- (iv) Piecework resulted in wide disparities in pay levels which gave rise to further grievances and disputes. (BL claims that in the Cowley assembly plant 1,000 claims were referred to works manager level in the last year of piecework.)
- (v) There was a lack of income security. Lay-offs arising from disputes elsewhere in the Corporation or outside the Corporation could mean a sharp reduction in piecework earnings.

9.13. BL therefore decided to move to a system of measured day work beginning with the workers who were starting production of the Marina in Cowley in early 1971. To improve the attractiveness of the new system lay-off pay was also introduced. The change was not welcome to many workers who thought that they fared better under the old system. Although the amount of

time lost through disputes over the changeover was small, BL accepts that in order to secure acceptance of the measured day work system, they had to agree to manning levels which were often excessive. By September 1974 some 94 per cent of BL's hourly-rated employees were being paid under the day work system.

9.14. BL believes that the new system will eventually bring significant benefits in improving industrial relations and in making it possible to plan and control production more effectively. In our discussions with BL trade union representatives, they argued that measured day work discouraged improvements in labour productivity, because it provided no reward for individual effort. They accepted that it was not desirable to abandon measured day work and return to piecework. They suggested, however, that in the interests of promoting better labour productivity, BL might introduce some form of incentive payment to supplement normal measured day work earnings.

9.15. The Team consider that there should be no change in the measured day work system at present. The move to measured day work has not yet been fully digested, and not enough time has elapsed for its advantages and disadvantages to be properly assessed. In particular, BL needs more time to work out acceptable standards of production performance as a basis for judging the potential for increasing productivity in the future. There is, nevertheless, scope for improving the measured day work system by agreement with the trade unions. This could at some time in the future include the introduction of some incentive element, and this possibility should be kept under review.

### **Collective bargaining**

9.16. Collective bargaining arrangements in BL are extremely complex, and like many other aspects of the Corporation, reflect the historical evolution of BL from a large number of small companies. The 170,000 employees are divided among some 60 plants, 8 divisions and 17 different unions. As a consequence, the number of bargaining units (ie separate groups of employees covered by a single pay agreement on the main terms and conditions of their employment) is very large. There has been some progress in reducing the number of units in recent years. For example, at Triumph five separate plants have been brought together for wage bargaining purposes, hourly-rated employees in Jaguar are covered by a single unit, efforts are being made to integrate all Rover plants into a single hourly-rated bargaining unit and some progress is also being made in Truck and Bus Division. Nevertheless, there still remain 246 separate units. In one location, Castle Bromwich, there are nine bargaining units for hourly-rated employees. In some locations (eg Cowley) there is separate bargaining in the Body and Assembly plants, even though pay parity has been established between them.

9.17. It is BL's policy to reduce the number of bargaining units. They argue that under the present arrangements the Corporation is in an almost continuous bargaining situation. The settlement of a claim in one location leads to a negotiation in another. The result in their view is to increase the instability of BL's industrial relations.

9.18. The trade unions have in the past been suspicious of BL's wish to reduce the number of bargaining units, because of their opposition, to the introduction of centralised bargaining on a corporation-wide basis of the kind which operates at Ford. They have, however, agreed to centralised bargaining over pension arrangements.

9.19. BL at present negotiates basic wages and conditions of employment (eg the 40 hour week, the four-week holiday entitlement) through the Engineering Employers' Federation (EEF), and this basic agreement is then supplemented by separate agreements negotiated locally. If BL wanted to change to a system under which basic wages and conditions were negotiated centrally for BL as a whole or for major sectors of BL's activities (eg cars, trucks and buses etc) this would call in question BL's continued membership of the EEF. Although the EEF would probably not require BL to leave the Federation, it is questionable whether it would make sense for BL to stay, once its basic wages and conditions were no longer negotiated through the EEF. For the time being BL prefers to continue to negotiate through the EEF. We do not recommend any change in this arrangement at present, although BL should keep under review the balance of advantage of its remaining within the EEF.

9.20. Meanwhile, however, there is scope for reducing the number of bargaining units. In discussion with the Team the trade union representatives showed sympathy with the idea that there might be further progress towards a reduction in the number of bargaining units, provided that this was achieved gradually. They also recognised that BL would have more scope for delegating authority to negotiate to the level of individual bargaining units if these units were large enough to have a genuinely separate identity.

9.21. Collective bargaining at BL is also complicated by the wide variety of different renewal dates for the various agreements. There would be advantage in substantially reducing the number of dates. In discussions with the Team, the trade union representatives accepted that this would be beneficial. The Social Contract guidelines provide the flexibility for a restructuring of this kind on a once-for-all basis.

9.22. We therefore recommend that there should be a substantial reduction in the number of bargaining units at BL in the interests of good industrial relations and that, in the context of Government financial assistance to BL, further discussions with the trade unions should be held to work out a phased programme. An interim objective should be to aim at having not more than one unit for hourly-rated employees and another unit for white-collar employees at each location. An even smaller number might be envisaged eventually to reflect the new organisational structure for BL proposed in Chapter 12. A reduction in the number of renewal dates for agreements should also be discussed with the trade unions. Finally, maximum use should be made of the new Advisory, Conciliation and Arbitration Service to settle issues where agreement cannot be reached under the normal bargaining arrangements.



9.23. If full benefit is to be derived from these improvements in the collective bargaining machinery, it is essential that BL line management in the new bargaining units should have sufficient delegated authority to negotiate effectively. In Chapter 12 on organisation we have proposed a new structure in which BL corporate staffs are drastically reduced, corporate control and co-ordination are kept to the essential minimum, and responsibility and authority are devolved as far down the line as possible. This new approach has special relevance to industrial relations. In recent years, for a variety of reasons, there has been a tendency for BL's line management to be seen as having little real authority in bargaining. This tendency must be reversed. There will be a continuing need for a Director of Personnel at corporate level to advise the Board and Chief Executive on general issues of industrial relations policy and to give guidance to BL line management on negotiating strategy. But the responsibility for the conduct of negotiations must rest, and be seen to rest, with line management in the new bargaining units.

#### **Industrial democracy**

9.24. The most crucial factor in improving industrial relations at BL and in creating the conditions in which productivity can be increased is, however, that there should be some significant progress towards industrial democracy. Means must be found to take advantage of the ideas, enthusiasm and energy of BL's workers in planning the future of the business on which their livelihood depends. The objective should be to remove frustrations caused by management decisions imposed remotely from above. Workers' representatives need to be given more information about their company so that they can better appreciate management's problems and co-operate more constructively in solving those problems.

9.25. One of the main problems in devising arrangements of this kind at BL is the complexity of organisation on the trade union side. BL has to deal with seventeen different trade unions co-ordinated nationally in the Confederation of Shipbuilding and Engineering Unions (CSEU). A great deal of power and influence rests, however, with the shop stewards at plant level. Although there is a British Leyland Shop Stewards Committee, this is an unofficial body which is not recognised by BL or by the trade unions. There is therefore no single standing official body which could be said specifically to represent BL's employees. In order to assist the Team to carry out effective consultations for the Inquiry, the CSEU arranged a meeting of BL shop stewards in Birmingham on 3rd February and this meeting elected twelve representatives who were able to join with CSEU representatives in subsequent meetings with the Team. This arrangement was of great value to the Team. However, the composition of the shop steward representation did not reflect the balance of membership as between different unions or the distribution of employees between different BL divisions and plants. The Team received written representations from various trade unions both locally and nationally to the effect that the shop steward delegation was unrepresentative, that it had not been democratically selected and that the submission being made to the Team did not properly reflect the views of BL workers. It is clear that, if progress is to be made towards industrial democracy in BL, means must

be found of ensuring that there is adequate and balanced representation of the work force.

9.26. The trade union representatives put forward written submissions setting out their proposals for participation. These were framed on the assumption that BL would, as the trade unions recommended, be nationalised. They recognised that if the Government did not find it practicable to take BL wholly into public ownership somewhat different proposals for participation would be necessary.

9.27. The trade union proposals can be summarised as follows:

- (i) There would be a series of joint Management/Union committees at all levels operating under an overall Group Board of Management.
- (ii) The Committees would consist of elected voting union members with non-voting ex-officio management who would report on and account for policies and management.
- (iii) There would be three levels of Committees:
  - (a) Department Committee—directly elected by union members (dealing with the affairs of a factory department).
  - (b) Factory/Area Committee—directly elected by union members (dealing with matters affecting a factory or group of factories in an area).
  - (c) Divisional Committee—elected by the Factory Committees (this Committee would put forward ideas on the need for developments in the division within the overall strategy of the Corporation, would ensure that the overall strategy was carried out within the division, and that 'agreed financial commitments' were implemented, and would be responsible for consultation with the lower level Committees).
- (iv) The Board of Management would have 'overall responsibility for the general direction of the Corporation's activities'.
- (v) The Board would be composed of Union and Government nominees on a 50/50 basis. Union members would be elected from the Divisional Committees while Government nominees would be appointed on a basis of consultation between the Unions and the Government. In addition, management would be represented in a non-voting ex-officio capacity.
- (vi) The Board of Management would appoint the Management Team. The Board would need to sanction 'all new policy decisions' by management.
- (vii) There would be full disclosure of all relevant information at the various levels of the organisation.

9.28. The trade union proposals raised two main issues which the Team believe are best considered separately—worker representation on the Board and improved arrangements for involvement and consultation at divisional and plant level.

9.29. The proposal for worker representation on the Board raises a major issue of Government policy which is of general significance. The Team are aware that the Government is considering the proposals made in the Labour Party Green Paper 'The Community and the Company' and in the TUC's 1974 Report on industrial democracy for a two-tier board structure in which there would be 50 per cent trade union representation. These proposals would involve major changes in company law and in the statutes governing the nationalised industries. In our view, consideration of whether there should be elected worker representation on the Board of BL should be deferred until the Government has determined its general policy on the composition of company boards and boards of nationalised industries.

9.30. We welcome, however, the readiness of the trade union representatives to consider the setting up of joint management/union committees at divisional, plant and factory department levels. There is already a considerable number of management/union committees in BL, as in most companies of this size and type, to discuss particular matters such as production, safety and the canteen. These committees are mainly at plant level. Hitherto these bodies have not been very effective. Mainly this is because there has been inadequate management commitment to the consultative process. Discussions have been limited to trivial matters and management has been represented at too junior a level to ensure that employee views are genuinely taken into account in decision-taking. Trade unions, for their part, have often been suspicious of such bodies as either ineffective or designed to undermine normal bargaining arrangements. Tentative efforts recently by BL to set up a consultative council at corporate level have not been welcomed by trade union representatives, partly because of fears that it might lead to centralised collective bargaining.

9.31. We believe that there are several factors which should help in setting up a new and genuinely effective structure of committees to involve BL's workers in decision-making. The crisis at BL has made all workers acutely aware of the wider issues affecting the future of the Corporation. In order to ensure that the workers understand what is happening and can contribute constructively to solving BL's problems, it is already accepted that they must be provided with much more information than in the past about the Corporation's performance and future plans. The Government's proposals for planning agreements will also entail discussion of BL's future plans by Government, management and workers, subject to safeguards about national security and commercial confidentiality.

9.32. The most important reason for setting up a new structure of joint management/union committees is the need to provide a forum in which representatives of BL's workers can contribute effectively to improving BL's efficiency. We have recommended in paragraph 9.9 above that the capital expenditure programme and the injection of Government finance should be staged and that each new stage should depend on evidence of a contribution both by BL's workers and its management to a reduction in industrial disputes and increased productivity. Such a contribution can be made only with knowledge and understanding of future plans and in an

atmosphere of joint problem-solving by management and unions. There should be a framework, removed from the normal arrangements for collective bargaining, in which agreement can be reached on the action required.

9.33. We therefore recommend that, following this Report, a new structure of joint management/union committees should be worked out in consultation with the trade unions. The trade union proposals summarised in paragraph 9.27 above seemed to us to go further than is practicable. Over the next decade, BL will need the highest quality professional management it can get at all levels. Management must have executive responsibility and must be given the necessary scope for applying their skills in the interests of BL and its work force. On the other hand, there would be no point in establishing committees which were purely consultative, were expected to do little more than rubber-stamp management decisions, and which were confined to discussing trivialities. In the proposals outlined below, we have tried to devise machinery which will result in positive agreed action, without eroding management's executive responsibility.

9.34. We recommend that there should be no joint management/union committee at corporate level. We explain in Chapter 12 why we believe that BL should be run, as far as possible, as four separate businesses—BL Cars, BL Trucks and Buses, BL Special Products and BL International. We therefore propose that at the top tier of the new committee structure there should be two Joint Management Councils—the BL Cars Joint Management Council and the BL Trucks and Buses Joint Management Council. We do not recommend similar arrangements for Special Products and International. Apart from a small white-collar staff in London, nearly all the employees of BL International are overseas. As explained in Chapter 13, BL Special Products is a holding company for a number of separate undertakings producing diverse products. Arrangements for worker involvement in those undertakings should be developed in ways which take account of their particular circumstances and needs and the industries in which they are operating.

9.35. Below the two main Joint Management Councils, there should be two other tiers of Joint Management Committees. At the higher of these two tiers BL Cars should be divided up into not more than about eight meaningful units and BL Trucks and Buses should be divided into not more than about five such units. The units should be broadly consistent with the new organisation structure proposed in Chapter 12 and also make sense geographically. These groupings might be based partly on locations (eg the Longbridge complex of plants) and partly on divisional organisation. These Committees would be called simply Joint Management Committees with the appropriate prefix, eg Longbridge Joint Management Committee. The basic tier of the three-tier structure would be a large number of Departmental Joint Management Committees for each department or shop.

9.36. The composition and terms of reference of these bodies would be as follows:

- (i) *Joint Management Councils for BL Cars and for BL Trucks and Buses*

Chairman: Managing Director BL Cars/BL Trucks and Buses.

Members: A manageable number (not more than say 15) consisting of the senior management team of BL Cars/BL Trucks and Buses, and union representatives drawn one from each of the second tier Joint Management Committees.

Terms of reference:

- (a) to examine future plans to make BL a more competitive producer of cars (or trucks and buses);
- (b) to seek as far as possible to reach agreement on these plans, while recognising that executive responsibility rests with management;
- (c) to keep under review the implementation of these plans.

(ii) *Joint Management Committees*

Chairman: the senior BL executive within the area or division.

Members: senior management within the area or division, and senior shop stewards and senior staff association representatives within the area or division.

Terms of reference:

- (a) to work out, within the framework of the overall plan for BL Cars (or Trucks and Buses), more efficient means and methods of production and improvements in the working environment in the area of operations covered by the Committee;
- (b) to seek as far as possible to reach agreement on the action required, while recognising that executive responsibility rests with management;
- (c) to keep under review the implementation of the action agreed.

9.37. We also recommend that, in addition to the Councils and Committees, there should twice a year be two Management/Union Conferences, one for BL Cars and another for BL Trucks and Buses. The Conferences would be organised by the relevant Joint Management Council. The BL Cars Management/Union Conference would be attended by all members of the Joint Management Committees and Departmental Joint Management Committees within BL Cars. The same would apply in BL Trucks and Buses. The relevant Joint Management Council would be on the platform and the Conference would provide an opportunity for the Council to give a report on its work over the previous six months and to hear the views and suggestions of Committee members—both management and unions. Once a year the Chief Executive of BL should attend each conference. We consider that these Conferences are necessary to ensure:

- (i) that there is adequate liaison between the Councils and Committees at the various levels;
- (ii) that Committee members at both area and divisional level and departmental level have a full sense of involvement in the success of the business in which they operate (whether cars or trucks and buses) as a whole;

- (iii) that Committee members at both levels take full account in their work of the overall plans for the business (whether cars or trucks and buses) as a whole.

9.38. We are aware that, in putting forward these proposals, we are giving a major role to BL's shop stewards, and particularly its senior shop stewards. We believe that it is essential to the success of any new initiative for joint committees that it should recognise the realities of power and influence within the existing employee organisations. Only in this way can BL hope to obtain any genuine commitment on behalf of the work force. It may be argued that some of these shop stewards are motivated by extremist political views and do not act in conformity with the policy of their unions or the interests of their members. It must be for the members themselves to recognise the responsibilities which the shop stewards are exercising on their behalf and to ensure that the right people are chosen to exercise these responsibilities. So that there should be no misunderstanding about the rôle of the committees and to secure full participation in their activities by all employees, the widest possible publicity should be given to the setting up of the committees and their terms of reference.

9.39. The proposals for joint councils and committees which we have outlined will require more detailed elaboration in a number of important respects—for example, the basis on which BL Cars can be divided to provide not more than eight units at the Joint Management Committee level. Moreover, the proposals cannot succeed unless they have support and co-operation from BL's trade union representatives and workers. The first step in implementing the proposals must therefore be to explain them fully and discuss them with BL's management and senior trade union representatives.

### **Summary**

9.40. Our recommendations can be summarised as follows:

- (i) BL cannot succeed unless there is a reduction in the man-hours lost from internal industrial disputes and more efficient use both of existing capital investment and the proposed additional capital investment.
- (ii) The new capital expenditure programme and the injection of Government finance into BL should be staged and each new stage should depend on evidence of a contribution both by the work force and the management to the reduction of industrial disputes and improved productivity.
- (iii) There should be no major change in the present system of payment by measured day work; there is, however, scope for improving the system, and the possibility of introducing some incentive element in the future should be kept under review.
- (iv) BL should continue to negotiate basic wages and conditions through the Engineering Employers' Federation but should keep under review the balance of advantage of remaining within the Federation.
- (v) Discussions should be held with the trade unions about a further gradual but substantial reduction in the number of collective bar-

gaining units within BL and about a common reduction in the number of renewal dates for wage settlements.

- (vi) To enable BL's workers to contribute constructively to solving BL's problems, there should be a new structure of joint management councils, committees and conferences on the lines proposed in paragraphs 9.33 to 9.38.
- (vii) So that there should be no misunderstanding about the rôle of these new bodies and to secure full participation in their activities by all employees, the widest possible publicity should be given to their establishment and terms of reference.
- (viii) The first step in implementing the proposals must be to explain them fully and discuss them with BL's management and senior trade union representatives.

## CHAPTER 10

### **Distribution**

[This Chapter discusses BL's arrangements for distribution and relationships with its distributors and dealers in the UK, and is omitted for reasons of commercial security.]

## CHAPTER 11

### **Controls and systems**

[This Chapter describes and assesses the management controls and systems operated within BL and is omitted for reasons of commercial security.]

## CHAPTER 12

### **Organisation and management**

#### **Present organisation**

12.1. The present organisation of BL, as adopted in November 1974, is shown in Chart 12.1. It has the following main features :

- (i) The Chairman is also the Chief Executive; there is no formal statement of the extent to which the ultimate responsibility for

the day to day operations of the Corporation rests with the Chairman as Chief Executive or has been delegated to the Managing Director.

- (ii) It is a mixture of an organisation based on products (trucks and buses and three separate groups of cars—Austin Morris, Rover Triumph and Jaguar) and an organisation based on functions (eg the two manufacturing divisions, Body and Assembly and Power and Transmission, and the International Division, responsible *inter alia* for BL's overseas marketing).
- (iii) As a result, an unusually large number of line divisions—nine in all—report direct to the Managing Director; in fact, since there is at present no head of the International Division, the six directors or managing directors of the various international operations report to the Managing Director who thus has fourteen direct subordinates with line responsibility.
- (iv) In order to assist the Managing Director in exercising these responsibilities, there is a large corporate staff under some fifteen senior executives who also report direct to him, although they are loosely grouped under the five most senior of their number.

12.2. The steps which led to the present organisation are outlined in Chart 12.2. When BL was formed in 1968 by the merger of Leyland Motors and British Motor Holdings, themselves the result of a series of mergers over the previous two decades, the form of organisation reflected the earlier company structure—Austin Morris (formerly BMC), Pressed Steel and Jaguar from BMH, and Rover Triumph and Truck and Bus from Leyland. Although it was the declared intention at the time of the merger in 1968 in a document signed by Sir George Harriman and Lord Stokes that the Corporation should not be a holding company with largely autonomous subsidiaries but an 'integrated' organisation, the basic structure remained little changed until the two re-organisations of 1974. It is generally accepted that there were conflicting schools of thought within the Corporation—some working towards full integration and others hoping to preserve the independence of the old company structure. The present form of organisation is largely the result of these historical factors. The large Austin Morris/Pressed Steel operation has been broken down into separate divisions but the Rover Triumph and Jaguar Divisions remain mostly unchanged except for the loss of their parts and KD ('knocked down') activities to the newly created Parts and KD Division. The other main feature of the past few years has been the building up of a large corporate staff.

#### **Defects of present organisation**

12.3. We consider that the present organisational structure has serious defects and has significantly harmful effects both on the efficiency of BL's operations and on its future development. The organisation is now generally accepted as unsatisfactory by the higher management of BL and is defended only as an interim arrangement. There are, however, no agreed plans within BL about the eventual form of organisation which should be adopted or the timetable for achieving it.



12.4. In brief, the present structure of BL combines most of the disadvantages of both centralised and decentralised organisations with few of the advantages of either. In particular, the main defects are as follows:

- (i) There is inadequate co-ordination and integration of the product planning, engineering, manufacturing and marketing of cars.
- (ii) Co-ordination *within* the car business as well as co-ordination *between* the car business and BL's other activities is the responsibility of the Deputy Chairman and Managing Director who thus has too wide a span of detailed control.
- (iii) The creation of large corporate staffs to assist him to carry out these responsibilities has further increased the number of executives reporting directly to him (14 line plus 5 to 15 staff).
- (iv) The resulting complex of line/staff relationships leads to lengthy discussions both in formal committees and *ad hoc* groups and delays decisions.
- (v) The extensive use of corporate staffs undermines the authority and responsibility of line management without bringing them under effective control.
- (vi) The Truck and Bus Division and the International operations have suffered from the concentration of effort and resources at headquarters on the co-ordination of the UK car operations.

12.5. These basic defects in the organisational structure have been aggravated by a reluctance in BL's top management to delegate responsibility.

#### **Principles for a new organisation**

12.6. In considering what should be the new organisational structure we have been guided by the following main principles:

- (i) We do not believe that the Corporation as a whole is too large to be manageable, given the right organisational structure and the right management. There are advantages for BL in being a producer both of cars and of trucks and buses. There would, however, be advantage in dividing up BL's activities, within the overall corporate structure, into separate businesses which would be profit centres in their own right.
- (ii) The new structure must facilitate and not impede the policies of product rationalisation and re-organisation of production facilities outlined in Chapters 5 and 8.
- (iii) The Chairman should be non-executive. The Chief Executive should have full authority and responsibility for the operations of the Corporation as a whole.
- (iv) The Chief Executive should have only as many people reporting to him as he can effectively control directly.
- (v) The corporate staff should be drastically reduced to those functions where a corporate co-ordinated approach is essential.
- (vi) Management responsibility should be delegated down the line to the maximum possible extent and the main units into which the

Corporation is divided should be given the maximum possible autonomy within the overall corporate framework.

- (vii) In order to put an end to the organisational tensions and uncertainties from which BL has suffered over the past 7 years, the structure we propose should be announced immediately and implemented as a single stage operation without delay, rather than evolved through various interim stages over a number of years.

#### **Proposed new structure**

12.7 We have aimed to divide up the Corporation into identifiable units which are large enough to operate as coherent and separate entities. Three sectors of BL's activities can be readily recognised as separate operations—Truck and Bus, Special Products and International.

12.8. The production and marketing of trucks and buses have special characteristics. These vehicles are more complex and expensive and lend themselves less easily to techniques of volume production. The purchasers tend to be large companies or public authorities and there is a need for close contact between purchaser and manufacturer, sometimes extending to the development of special designs or modifications. BL's truck and bus activities are already organised in a separate division. We believe that the truck and bus business will be better able to realise its full potential if it is recognised as a profit centre in its own right and is given maximum autonomy within the overall framework of the Corporation.

12.9. Similarly *Special Products* Division already operates largely as an industrial holding company within BL. We recommend that it should continue to do so, as a separate profit centre. It should, however, incorporate Prestcold Ltd which is at present a separate company outside the BL divisional structure. The foundry activities of Special Products Division are more closely linked with vehicle manufacturing and should be integrated with BL's car and truck and bus operations, joining the foundries already under the present manufacturing divisions.

12.10. Although the present BL organisation chart (Chart 12.1) refers to an *International* division there is in fact no satisfactory structure for BL's overseas manufacturing and distribution. There is no head of the division and the various overseas directors and managing directors report directly to the Corporation Managing Director and, in some cases, direct to the Chairman. The staffs dealing with international activities in London appear to be largely confined to co-ordination and monitoring. This vital sector of BL's operations thus has no effective voice to argue on its behalf at corporate level. We therefore propose that a new and more effective International Division should be created under its own Managing Director who would have a seat on the Board. With a small staff in London he would be responsible for BL's overseas manufacturing and distributive operations as a separate profit centre with maximum autonomy within the overall framework of the Corporation. In particular the International Division would have considerable freedom to fix the prices of BL's products in overseas markets, subject to overall corporate pricing policy. The head of the Division would be expected to formulate and press the case

for a forward strategy in overseas markets, where BL is generally believed to have missed valuable opportunities in recent years.

#### **Cars: Main structure**

12.11. The major issue for consideration has, however, been the organisation of the car activities of BL. We considered the following options:

- (i) The amalgamation of the present six car divisions, partly functional and partly product-based, into a single car business.
- (ii) Re-organisation into three divisions based on product groupings—Austin Morris, Rover Triumph and Jaguar.
- (iii) Re-organisation into two divisions based on product groupings—an Austin Morris ('volume car') division and a Jaguar, Rover Triumph ('specialist car') division.
- (iv) Re-organisation into two divisions based on product groupings—an Austin Morris/Rover Triumph division and a Jaguar division.

12.12. We concluded that the creation of a single integrated car business as a separate profit centre within the Corporation would best serve the interests of BL in the future. We recognised the strength of the arguments which have preserved the separate identity of the Rover Triumph and Jaguar divisions within the Corporation since the merger—the need to preserve the distinctive product identity of the 'specialist' cars and the loyalty of employees at all levels within these divisions to the old company structures. BL cannot, however, compete successfully as a producer of cars unless it can make the most effective use of all its design, engineering, manufacturing and marketing resources. BL cannot afford to develop, produce and market competing models. It must use the minimum possible number of different body shells, power and transmission units and components. Manufacturing facilities must also be deployed flexibly. Our proposals on these matters are set out in Chapters 5, 6 and 8. We do not believe that these policies can be satisfactorily implemented with a structure under which Austin Morris, Rover Triumph and Jaguar are separate entities. This argument applies equally to options (ii), (iii) and (iv) above. Under the product-based approach the task of co-ordination between the various car operations would, as now, be a matter for the Managing Director, the corporate staffs and committees. We do not consider that this arrangement has worked satisfactorily in the past, and it would be even less likely to operate satisfactorily if, as we believe is essential, the car divisions were genuinely separate profit centres.

12.13. We therefore propose that, in addition to the three profit centres identified in paragraphs 12.7 to 12.10 (Trucks and Buses, Special Products and International), the whole of BL's car operations should form a separate profit centre. We do not believe that this need detract from the distinctive product identities of the 'specialist' cars. Moreover, although the car business will be large, we believe that it can be organised internally into manageable and accountable units.

#### **Planning and control**

12.14. The Managing Directors of the four separate profit centres would operate within the framework of a corporate plan for BL as a whole covering

a period of five to seven years and a set of annual business plans for each of the four operations. BL does not at present have a system of planning of this kind.

12.15. Under the new proposals the corporate plan would be prepared in the following way. The general assumptions and parameters (for example on economic trends) would be provided from the centre. The four separate businesses would then put forward their plans on all aspects of their operations for the next five to seven years which, after review and discussion between the Chief Executive and the Managing Directors, would be welded into a coherent corporate plan. Particularly in the early years of the new planning arrangements the major contribution to the development of the forward plans would inevitably come from the four separate businesses rather than from the centre. After approval by the Board the corporate plan would set the framework for the Corporation's activities for the next five to seven years and it would be rolled forward annually.

12.16. Similarly each of the four Managing Directors would put forward his annual business plan in the light of the current corporate plan. This would not be a purely financial document, but would set out objectives for all aspects of the business, including product development, production, marketing and manpower, the action required to achieve these objectives and the expected results in terms of cash flow and profits throughout the period. These business plans would be reviewed by the Chief Executive and commitments would be agreed by the Chief Executive and the Managing Director concerned and approved by the Board. Performance would be reviewed regularly and the Managing Directors would be answerable to the Chief Executive for variances from their commitments. The Managing Directors would be expected to adopt the same approach to the control and supervision of the levels of management below them.

12.17. An important feature of the new profit centre concept would be that each of the four separate businesses would be expected to service the appropriate proportion of BL's borrowings.

#### **Corporate organisation**

12.18. The corporate staff would be kept to the absolute minimum necessary to enable the Chief Executive to carry out his co-ordinating and monitoring responsibilities. The philosophy should be that the bulk of staff resources should be located in the four separate businesses. Apart from a small corporate public relations staff, the staffs at corporate level would be confined to:

##### **Finance, planning and control**

(the emphasis would be on the development of sound future plans and on monitoring performance against commitments).

##### **Secretarial, legal and corporate auditor**

(the corporate internal auditing function is grouped with the Secretarial function to provide an independent counter-balance to the finance function as conceived above).

## Personnel

(this would include the formulation and co-ordination of industrial relations policy; responsibility for industrial relations negotiations would be at divisional or plant level).

The total number of staff required for these functions at corporate level should be the minimum and very much less than the present total of around 1,000 (some 550 in London and some 450 in Coventry). There should be a consequent reduction in office accommodation in Central London. There would need to be an increase in staff below corporate level, particularly in the car activity as explained below. The proposed corporate organisation is shown in Chart 12.3.

### **Board membership**

12.19. We propose that, in addition to the non-executive Chairman and the Chief Executive, the Board of the Corporation should include the Managing Directors of Cars, Trucks and Buses, International, and Special Products and, because of the crucial importance of these functions, the Director of Finance, Planning and Control and the Director of Personnel. We also consider that at present the Secretarial function should be represented on the Board, because of the long experience of the current holder of that post (see below under Management). In addition to the executive directors there should be three or four part-time non-executive Board members with industrial and commercial experience.

### **Nomenclature**

12.20. At present BL is organised into divisions. In order to underline the new profit centre approach, to reflect the size and importance of the new integrated car business, and to develop loyalty to the new units, we suggest that the four components of the Corporation should no longer be described as divisions but should be called:

- British Leyland Cars;
- British Leyland Trucks and Buses;
- British Leyland International; and
- British Leyland Special Products.

### **Organisation below Corporate level**

12.21. The proposed internal organisation of Trucks and Buses, International and Special Products is shown in Charts 12.4, 12.5 and 12.6 respectively. Although there are no major differences from the present internal structure of those divisions they will, as explained earlier, operate with much more autonomy, and British Leyland International will have a much more positive rôle.

12.22. We have given detailed consideration to the internal organisation of British Leyland Cars which will account for the major part of the Corporation's turnover. The main reason for amalgamating the car activities into a single entity is to achieve the maximum possible integration of engineering, production and marketing. We therefore propose that the internal organisation of British Leyland Cars should reflect this objective and that it should be composed of four line divisions—one dealing with product planning, develop-

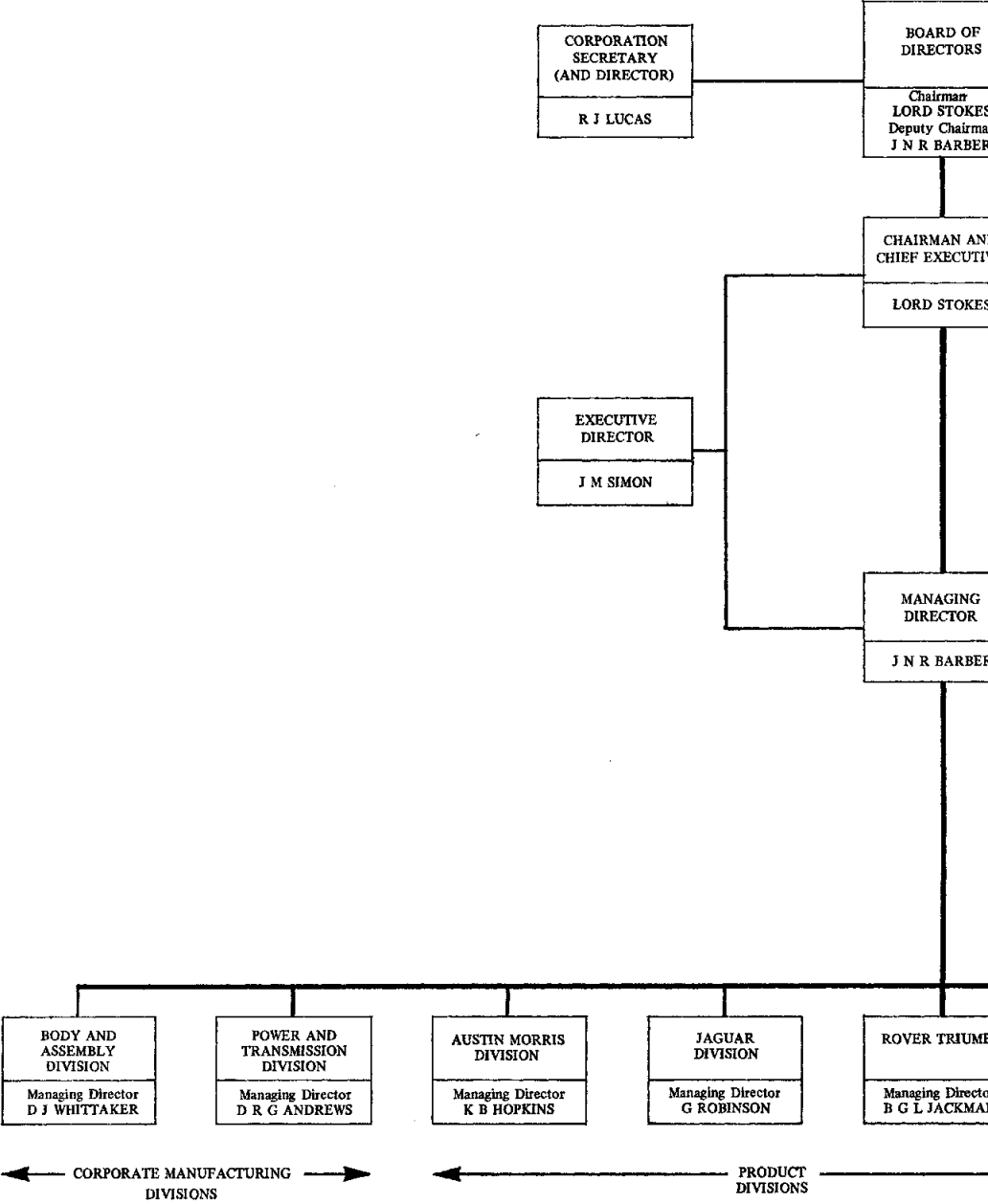
ment and engineering, one with manufacturing, one with sales and marketing and one with parts and KD. The structure is set out in Chart 12.7.

12.23. We are not including in the report any detailed recommendations about the organisation of the divisions within British Leyland Cars. We consider that this is primarily a matter for the new management to decide. We have, however, developed proposals which we would be ready to discuss with the new management at a later stage.

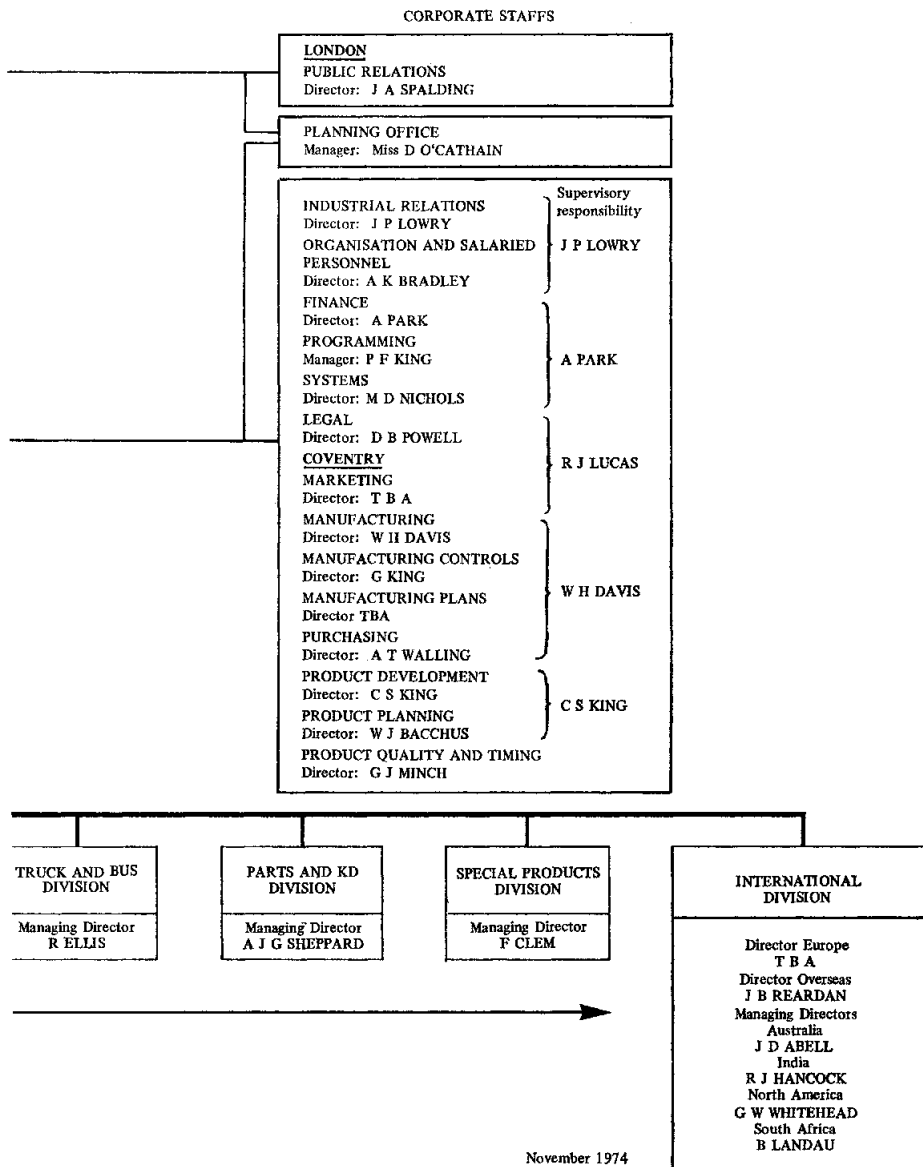
[Paragraphs 12.24 and 12.25, which contain the Team's proposals for appointments at the higher levels in the new organisational structure, have been omitted.]



**British Leyl**

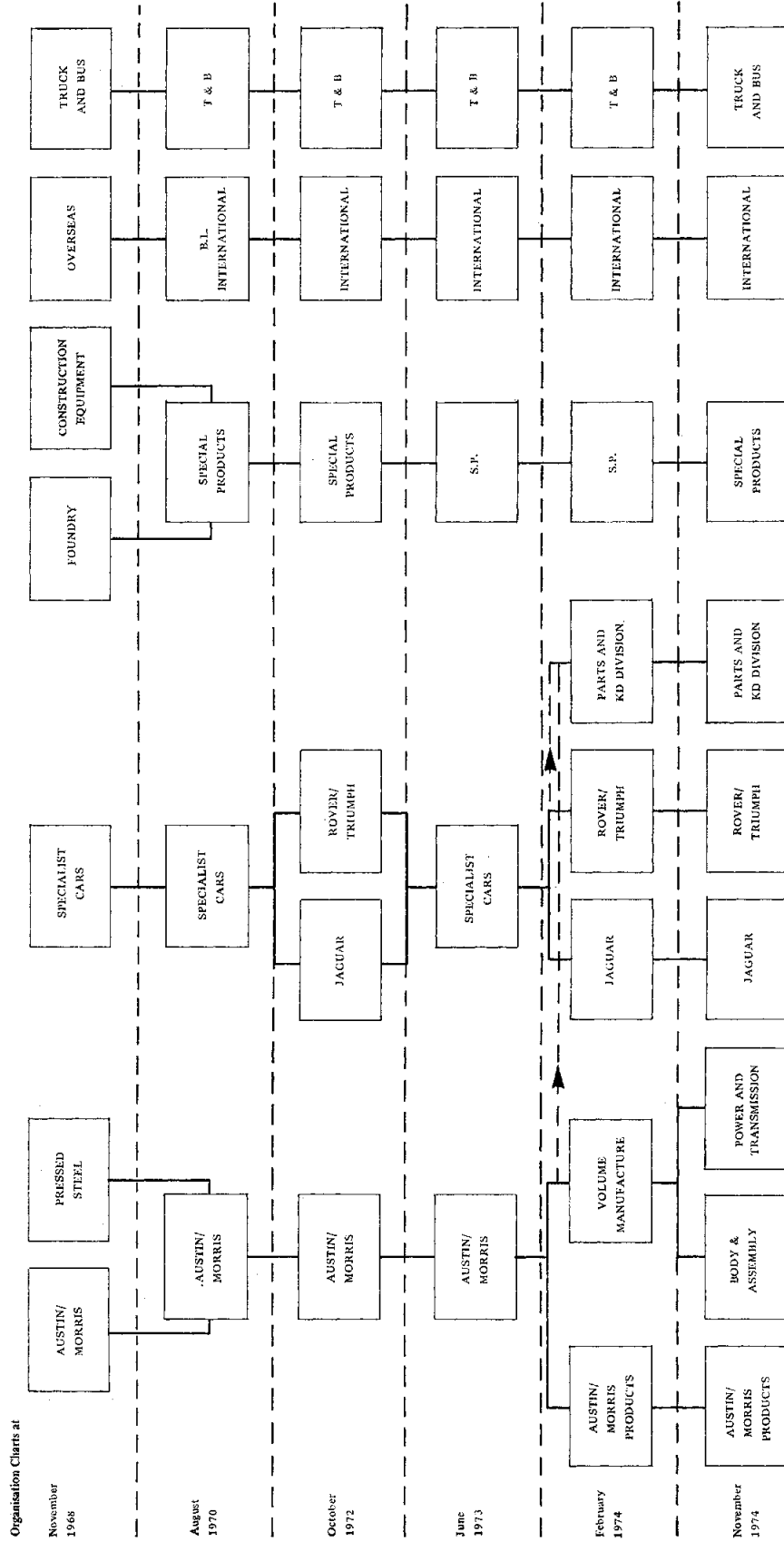






**British Leyland Motor Corporation**

**Development of present operating divisions since 1968\***



Organisation Charts at

November 1968

August 1970

October 1972

June 1973

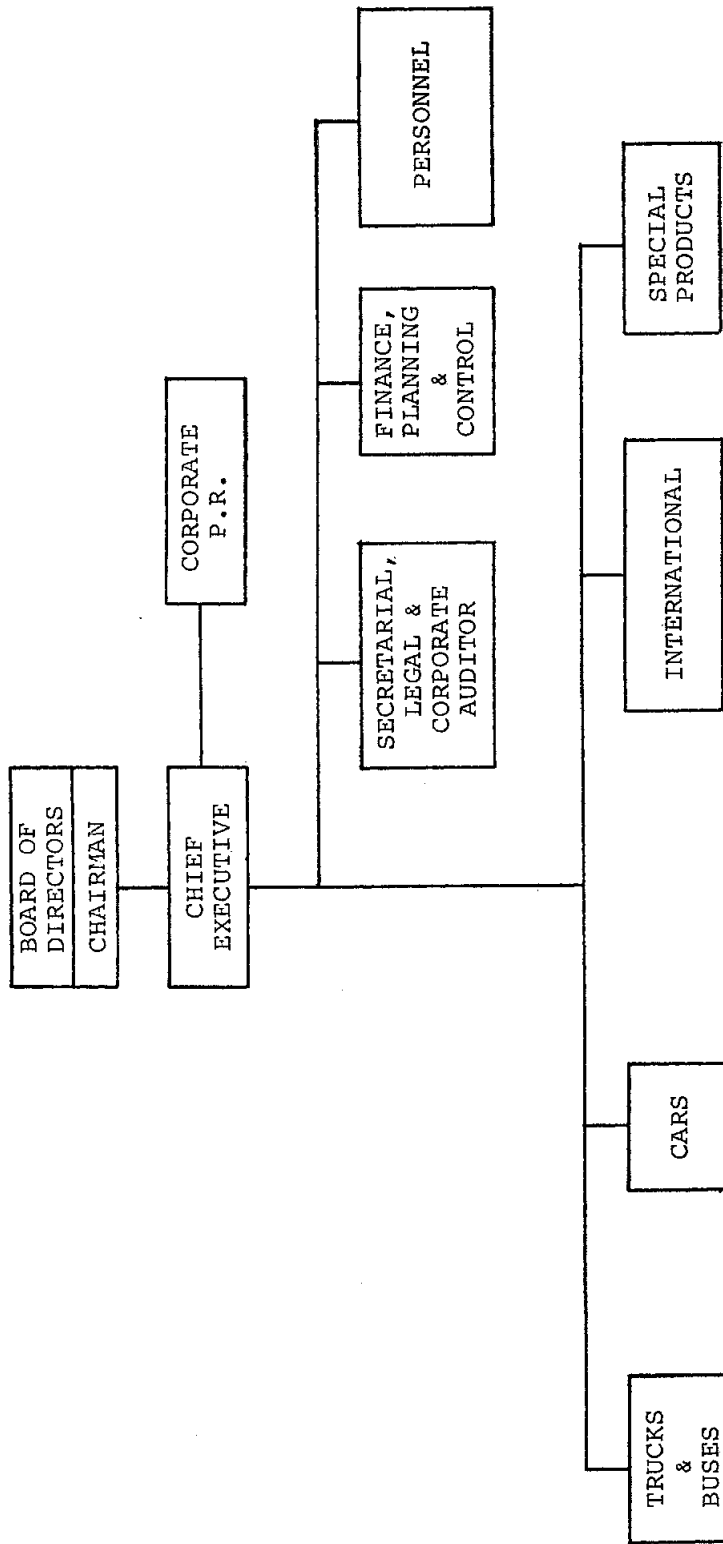
February 1974

November 1974

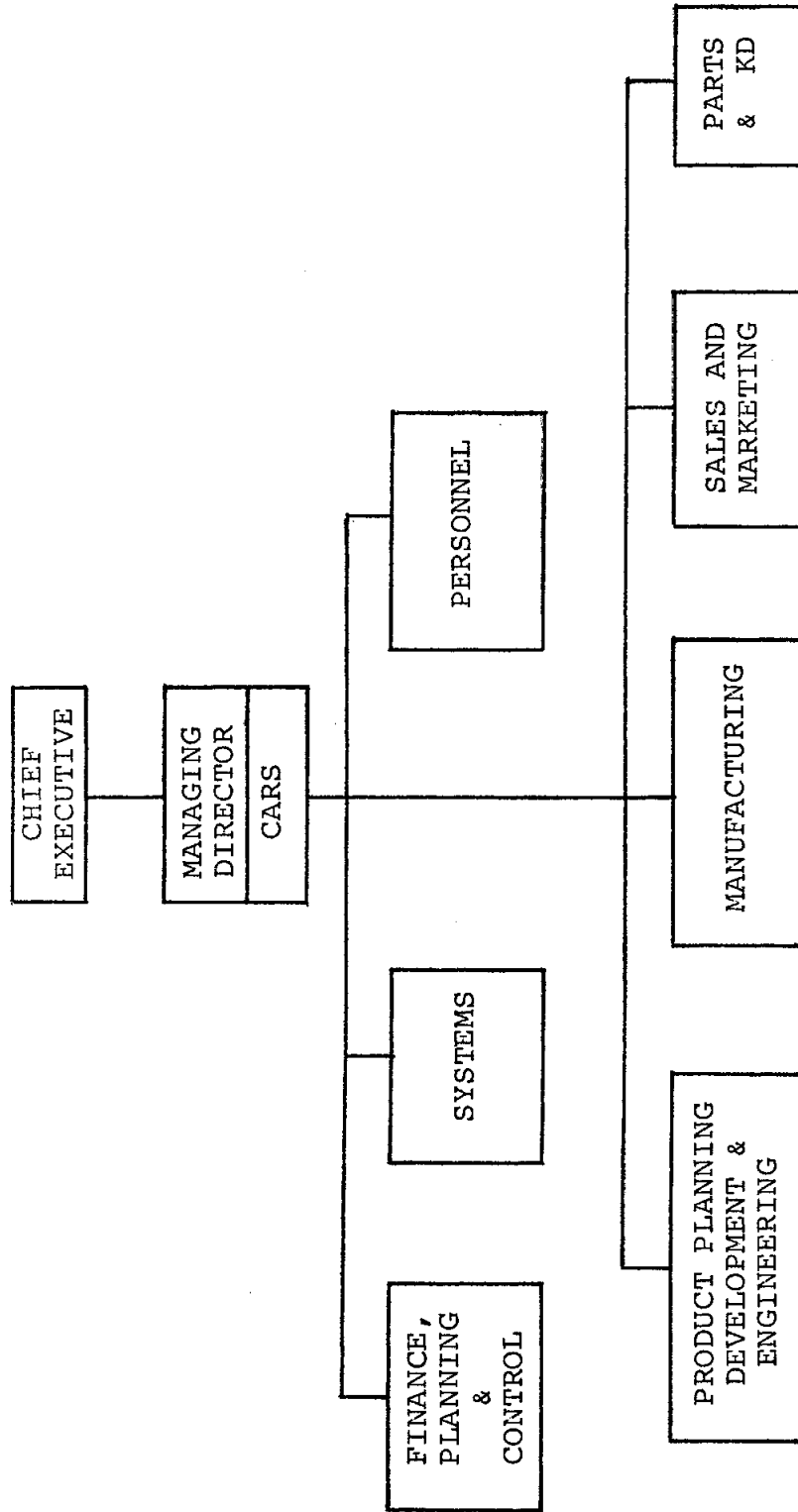
Notes

\* (1) This chart shows divisions with direct responsibility to the Managing Director of British Leyland

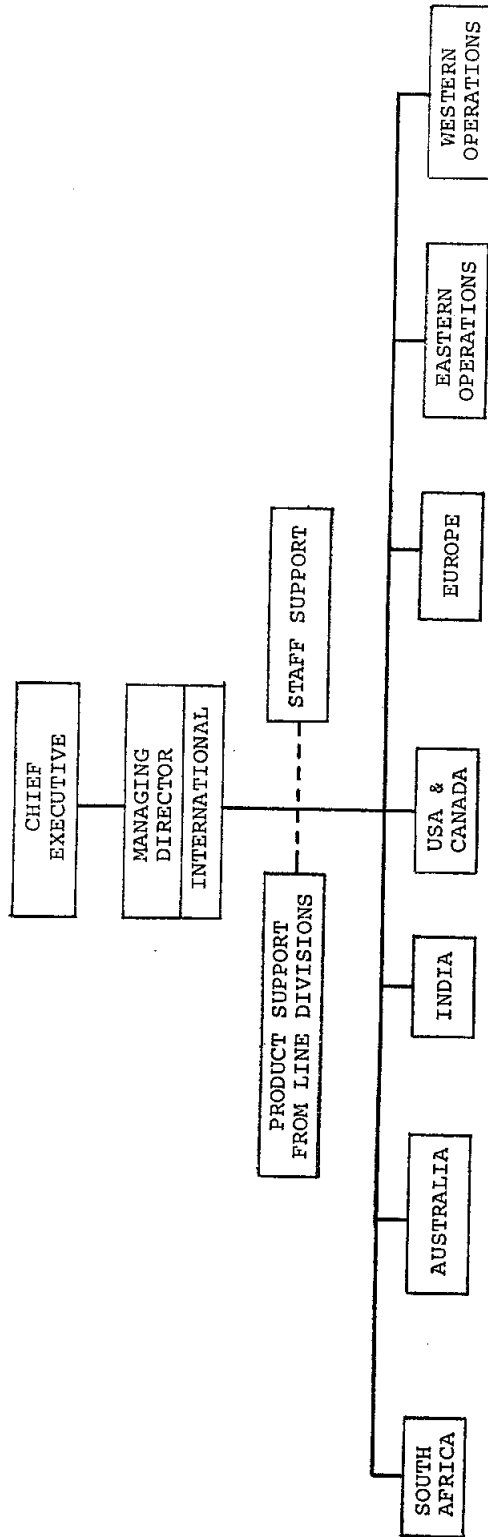
**Proposed new corporate organisation**



Proposed internal organisation—BL Truck & Bus

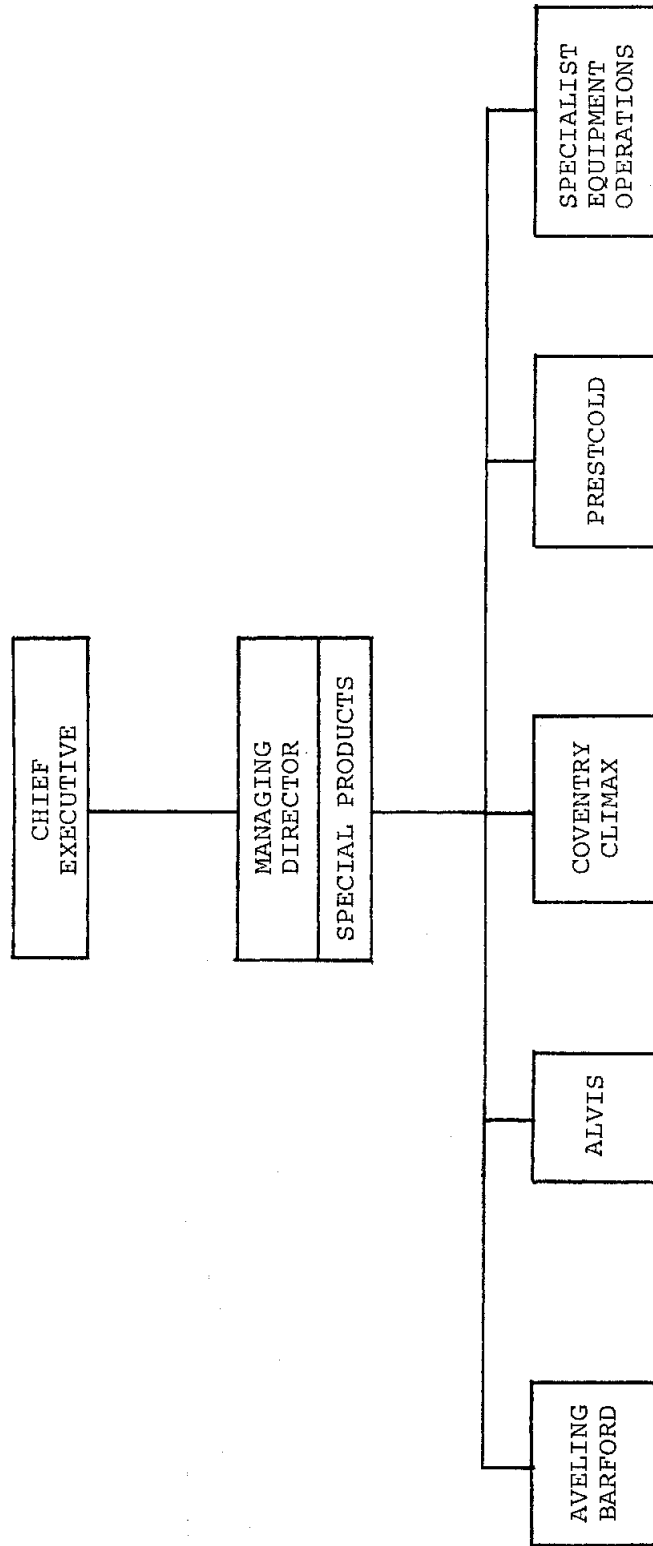


**Proposed internal organisation—BL International**

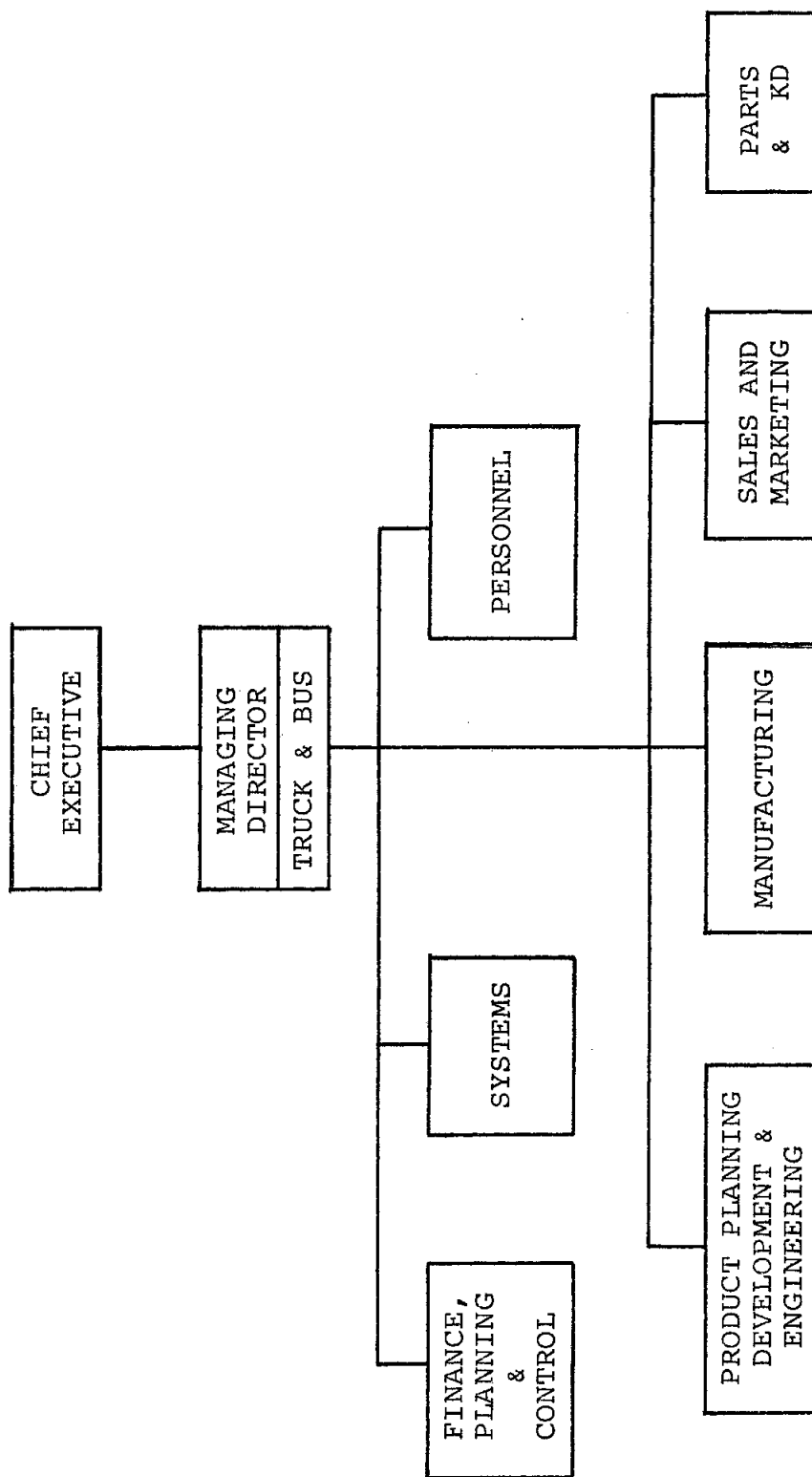


NOTE: Eastern & Western operations cover those remaining areas of the world not specified, using UK as the dividing line and the Pacific as the fringe.

**Proposed internal organisation—BL Special Products**



Proposed internal organisation---BL Cars



## CHAPTER 13

### Special products

[This Chapter, which provides detailed information about the operations and prospects of BL's Special Products Division and Prestcold Limited, is omitted for reasons of commercial security.]

## CHAPTER 14

### Cost of the programme

14.1 Chapters 5 to 12 set out a programme to make BL a viable and fully competitive vehicle producer. This has the following main elements:

- (i) the introduction of a new and rationalised model range;
- (ii) the modernisation and reorganisation of production facilities;
- (iii) a vigorous marketing effort to maintain and increase sales, especially in Western Europe;
- (iv) radical changes in BL's organisation and management;
- (v) a contribution from BL's employees, through new machinery for worker participation, to the reduction of industrial disputes and an improvement in productivity.

14.2 This chapter assesses the financial consequences of this programme under the following headings up to and including BL's financial year 1981/82:

- (i) the capital expenditure required;
- (ii) the estimated additional need for working capital;
- (iii) the forecast profits;
- (iv) the scale of funds to be provided from external sources.

14.3 The programme has been costed both in *constant* price terms (ie based on average 1974/75 costs and selling prices) and in *inflated* price terms. It is desirable to make an inflation adjustment because, as explained in Chapter 4, inflation at current rates has a major effect on cash flow and financing. The inflation assumptions used, for illustrative purposes, are as follows

<i>BL financial years to end September</i>				
1974/75	...	...	...	22½%
1975/76	...	...	...	15%
1976/77	...	...	...	12½%
1977/78	...	...	...	12½%
1978/79	...	...	...	12½%
thereafter	...	...	...	10%



The inflation assumptions used for the later years are, of course, highly speculative. The detailed proposals for raising finance in Chapter 15 of the Report do not however go beyond September 1978 and the forecasts of profit as a percentage of sales discussed later in this Chapter are not significantly affected by different inflation assumptions.

### Capital expenditure

14.4 The capital expenditure requirement over the eight years to end September 1982 is estimated at £1,264 million in constant price terms and £2,090 million in inflated price terms. In constant prices the annual capital expenditure rises from £102 million in 1974/75 to £215 million in 1977/78 and then declines to £112 million in 1981/82. Throughout this period the annual capital expenditure will be considerably higher than in any year since BL was formed in 1968, even allowing for inflation.

14.5 The breakdown of the expenditure is shown in the following table:

TABLE 14.1  
BL's capital expenditure requirement  
*£m = at inflated prices as defined in paragraph 14.3*

	Year ended 30th September									
	1975	1976	1977	1978	total	1979	1980	1981	1982	Total
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Car operations	83	106	167	249	605	249	262	255	204	1,575
Truck and Bus	7	37	64	64	172	43	48	43	40	346
Special Products	4	8	6	6	24	8	15	8	7	62
International	8	18	11	12	49	16	20	14	8	107
Total (inflated prices terms)	102	169	248	331	850	316	345	320	259	2,090
Total (constant price terms)	102	138	181	215	636	182	181	153	112	1,264

14.6 As the table shows, about three-quarters of the capital expenditure will be in the car operations. Of this total for cars of some £1,500 million in inflated price terms, some £1,000m will be capital expenditure arising from the introduction of new products and the improvement of existing products (e.g. model facelifts). In fact the split between expenditure on new products and expenditure on the modernisation of facilities is somewhat arbitrary. The introduction of a new model normally involves substantial replacement of existing plant and machinery. The Team's proposals about BL's product range are set out in Chapter 5. The capital expenditure details are set out in the following table:

[Table 14.2 is omitted for reasons of commercial security.]

14.7 Nearly £400 million in inflated price terms will be required for expenditure on the modernisation of car production and engineering

facilities. The case for such expenditure is argued in Chapters 6 and 8. An indication of the breakdown of the expenditure is given in the following table:

[Table 14.3 is omitted for reasons of commercial security.]

14.8 The capital expenditure required for the truck and bus operations is estimated at £346 million in inflated price terms. Of this some two-thirds (£239 million) will be concerned with the modernisation of production facilities. The annual breakdown is set out in the following table:

[Table 14.4 is omitted for reasons of commercial security.]

#### **Working capital**

14.9 With the benefit of this capital expenditure, and the new model range, and in accordance with the marketing objectives set out in Chapter 5, total sales of BL are forecast to increase from £1,885 million in 1974/75 to £2,790 million in 1981/82 in constant price terms (£5,935 million in inflated price terms). This will require a substantial increase in BL's working capital. As explained in Chapter 4 (paragraph 4.12), BL's net operating assets were run down to unusually low levels during 1973 and 1974 (£122 million representing 7.8 per cent of annual turnover at 30th September 1973, and £139 million representing 8.7 per cent of annual turnover at 30th September 1974). It is assumed that in order to maintain adequate levels of stocks BL will need to have net operating assets at about 15 per cent of annual turnover throughout the period to end September 1982. This would involve an increase in net operating assets from end September 1974 to a level of £891 million at end September 1982, ie an increase of some £750 million in inflated price terms, or some £260 million in constant price terms.

#### **Profit forecast**

14.10 The cost of the programme to end September 1982 in terms of the additional requirement both for investment in fixed capital and for working capital is therefore forecast to be some £1,500 million in constant price terms and some £2,800 million in inflated price terms. In order to decide whether the provision of additional resources on this scale can be justified, it is necessary to forecast how far the programme will improve BL's profitability. In doing so, two important considerations must be borne in mind:

- (i) in a company like BL where there is an immense backlog of modernisation to be caught up, several years must inevitably elapse before even quite substantial amounts of new investment begin to have a significant effect on profitability;
- (ii) profit forecasts for a period as far ahead as 1981/82 must inevitably be based on a wide range of assumptions about matters such as market trends, exchange rates etc and these are listed in Annex 14.1; although in the tables that follow, figures are provided to the nearest £1 million for illustrative and arithmetical convenience, this should not be taken as implying that the forecasts have that degree of precision or reliability.

14.11 One important area in which assumptions have to be made is the contribution to be expected from the work force in improving efficiency by agreeing to manning reductions and greater mobility and interchangeability of labour. Over the 8 years to end September 1982, a benefit of some £400 million has been allowed for these factors—nearly a quarter of the forecast cumulative profit before interest and tax. We consider that an improvement of this kind is feasible in the context of the new capital expenditure and the new approach to industrial relations and worker participation outlined in Chapter 9. Depending on the success of this approach, even bigger improvements in efficiency might be obtained. If, on the other hand, no substantial improvement is achieved, particularly in the early lean years of the period, BL's viability will be put in jeopardy and it will be much less easy to justify the later stages of the capital investment programme.

14.12 The following table forecasts the sales and profitability of BL, on the assumption that funds will be available to finance the proposed capital expenditure programme and additional working capital required and in accordance with the assumptions in Annex 14.1:

[Table 14.5 is omitted for reasons of commercial security.]

The table shows that profits before depreciation and amortisation, interest and tax as a percentage of sales are expected to increase to 11.0 per cent in 1981/82 compared with an average of 6.5 per cent in the period 1968/69 to 1973/74. It also shows that BL would earn enough profit to cover interest on the assumption (which is unrealistic, for the reasons explained in Chapter 15) that all additional requirements for capital could be provided by borrowings bearing interest at 12 per cent.

14.13 There is also an improvement in the return on BL's capital employed, as is shown in the following table:

[Table 14.6 is omitted for reasons of commercial security.]

The table shows that profit before all interest and tax as a percentage of total capital employed is forecast to increase to 19.6 per cent in 1981/82 compared with an average of 9.6 per cent in the period of 1968/69 to 1973/74. While we recognise that this is not a satisfactory return, it must be appreciated that it is caused by massive under-investment in the past. After 1982 BL should start to reap the benefits of the new capital expenditure programme.

#### **Funds required from external sources**

14.14 The following table shows the effect of the capital expenditure programme and the increase in working capital on BL's cash flow:

[Table 14.7 is omitted for reasons of commercial security.]

14.15 It is clear, therefore, that although BL is forecast to achieve a positive cash flow in 1981/82, there is likely to be a requirement for funds from external sources during the period 1974/75 to 1980/81 of £1,300 million to £1,400 million in inflated price terms. As explained earlier, the requirements for the later years are less certain, and it is preferable therefore to

concentrate on the requirement for the period to end September 1978. On the basis of Table 14.7 this would appear to be of the order of £900 million in inflated price terms. Proposals for financing this requirement and the implications for Government involvement in the ownership and control of BL are discussed in Chapter 15.

14.16 The financial consequences of the programme we propose can be summarised as follows:

- (i) There is a capital expenditure requirement for the eight years to end September 1982 of £1,264 million in constant price terms or £2,090 million in inflated price terms.
- (ii) An increased provision for working capital is required of around £260 million in constant price terms or £750 million in inflated price terms.
- (iii) After allowing for improvements in efficiency, BL's profits as a percentage of sales are forecast to improve to 11.0 per cent in 1981/82 compared with an average of 6.5 per cent in the period 1968/69 to 1973/74.
- (iv) BL's return on capital employed is forecast to improve to 19.6 per cent in 1981/82 compared with an average of 9.6 per cent in the period 1968/69 to 1973/74.
- (v) On the assumption (which is in practice unrealistic) that all BL's additional requirements for capital were to be met by borrowings at an interest rate of 12 per cent per annum, BL would earn enough profits to cover the interest.
- (vi) In inflated price terms, the funds to be provided from external sources are forecast to be of the order of £1,300 million to £1,400 million, of which some £900 million is likely to be required before end September 1978.

**Main assumptions underlying the profit forecasts in  
Tables 14.5, 14.6 and 14.7**

1 The annual rates of inflation will be:

<i>BL financial years to end September</i>					
1974/75	...	...	...	...	22½%
1975/76	...	...	...	...	15%
1976/77	...	...	...	...	12¼%
1977/78	...	...	...	...	12¼%
1978/79	...	...	...	...	12¼%
thereafter	...	...	...	...	10%

2 Except to a minor degree, the inflation rates used will apply world wide, or to the extent that they do not, there will be compensating adjustments in currency exchange rates.

3 Inflation rates will apply 'across the board'; in other words the rates assumed will be equally valid for wage increases, material, costs, selling prices and capital costs.

4 Where profit is given after interest an interest rate of 12 per cent will apply throughout the period on all borrowing other than fixed term borrowings which existed at 30th September 1974.

5 Total demand for vehicles in world markets up to 1985 will be as set out in Chapter 2.

6 BL will retain around 33 per cent of the UK car market and will increase its penetration in the Western European car market from under 3 per cent to nearly 3.6 per cent by 1981/82 (rising subsequently, outside the forecast period, to 3.9 per cent by 1984/85).

7 There will be a benefit of some £400 million cumulative to end September 1982 through improved industrial relations, manning reductions and greater interchangeability and mobility of labour as a result of the measures proposed in Chapter 9.

8 The new capital expenditure programme and the other main recommendations in the report about the product plan, production and engineering facilities and changes in organisation and management are implemented without delay.

## CHAPTER 15

### Financing of the programme

15.1 Chapter 14 indicated the scale of funds which would need to be provided both in the period up to the end of September 1978 and, with less certainty, over the subsequent four years to the end of September 1982, in order to put BL on to a viable and profitable basis. This Chapter sets out the Team's proposals on how these additional funds should be provided and on the extent to which the Government should become involved in the ownership and control of BL.

#### Nature of the problem

15.2 Table 14.7 showed that BL is forecast to have a negative cash flow amounting cumulatively to nearly £1,400 million in inflated price terms by the end of September 1981. Thereafter there is a cash inflow. On the assumption that this negative cash flow of £1,400 million was to be financed by borrowing at the rate of 12 per cent per annum, it is forecast that BL would generate enough profit to pay the interest although clearly, in view of the need to retain profits to finance investment, there would be nothing available for dividends. Moreover borrowings would rise (in inflated price terms) from some £135 million at end September 1974 to £1,507 million at end September 1981. This is shown in the following table:

[Table 15.1 is omitted for reasons of commercial security.]

15.3 It is clear therefore that, irrespective of the borrowing limits explained in Annex 4.1 to Chapter 4, BL would become grossly over-burdened with fixed interest capital. Borrowings as a percentage of shareholders' funds would rise from 188 per cent at end September 1975 to 475 per cent by end September 1978.

15.4 It would be impossible for BL to finance the programme which we have proposed, and which is vital to BL's competitiveness in the longer term, from commercial sources. BL is already in short term financial difficulty (see Chapter 4) and the present Government guarantee of £50 million is not likely to cover the position much longer. BL cannot therefore survive unless the Government is ready to provide a very large part of the funds required from external sources amounting to £900 million in the period to end September 1978 and the funds necessary in the period from then to end September 1982.

#### Justification for a Government contribution

15.5 There is in our view an overwhelmingly strong case for financial assistance from the Government to make BL a viable and internationally competitive vehicle producer. As explained in Chapter 3, BL is one of our major exporters and, so long as it maintains its present one-third share of the UK

car market, makes a major contribution to saving imports. It has 170,000 employees and provides jobs indirectly for many hundreds of thousands more. The world market for cars and commercial vehicles, while not growing as fast as in recent years, nevertheless, as Chapter 2 shows, provides considerable opportunities for BL over the next decade. We consider that a major new capital investment programme combined with improvements in labour productivity, should by the nineteen eighties substantially improve BL's profits and return on capital employed (see Chapter 14: Tables 14.5 and 14.6). In our view, therefore, although BL's requirements for additional funds are large, the economic arguments fully justify a Government contribution of this order.

#### **Method of Government intervention**

15.6 On the assumption that the Government will be prepared to accept responsibility for meeting BL's needs for additional funds, we have considered how the Government might best intervene. The present equity shareholders have in practice lost their investment and it might therefore be argued that the right course should be to withhold further assistance and allow BL to go into receivership. The Government would then purchase BL from the receiver and it would become a wholly Government owned company. There are however very strong arguments against this. Receivership would be widely misunderstood by BL's customers and suppliers particularly abroad and by its employees. The damage to BL's commercial reputation and the unsettling effect on BL's industrial relations could be very serious. The results would be even more harmful than when Rolls-Royce went into receivership since BL is in a consumer oriented industry.

15.7 We have assumed therefore that the Government will wish to avoid a receivership. We have also assumed for the purposes of this Report, although this is a matter for political decision, that the Government will not wish to introduce a special hybrid Bill to take BL compulsorily into public ownership.

15.8 The broad outline of our proposal is therefore as follows:

- (i) The Government should concern itself at present with the financing of the first stage of BL's requirements (ie the £900 million which, depending on the rate of inflation, is likely to be required before end September 1978) and, while recognising that further finance is likely to be required in the period from end September 1978 to end September 1982, should defer consideration of the method of financing during this second period.
- (ii) Part of the first stage requirement should be provided as new equity capital so as to give BL a reasonable debt/equity ratio; the remainder should take the form partly of long term loans from the Government, partly (if this can be arranged) of long term loans from institutions, and partly of short term overdraft facilities from the banks.
- (iii) Since the Government, through the provision of new equity capital, is likely to have a dominating shareholding in BL, an offer should be made to purchase the existing share capital of BL.
- (iv) Before the new equity capital can be provided it will be necessary to reorganise BL's capital structure through a Scheme of Arrangement.
- (v) The sequence of events would be:

- (a) Offer for the existing share capital and, at the same time, a capital reconstruction through a Scheme of Arrangement.
- (b) Provision of new equity capital.
- (c) Provision of long term loan capital.

**Scale of new equity capital required**

15.9 The requirement for funds from external sources (see paragraph 15.4) is £900 million in the period to end September 1978. Of this some £200 million is available from current overdraft facilities, leaving a balance of £700 million. In order to provide a reasonable debt/equity ratio we propose that the new capital to be provided should take the following form:

New equity capital ...	...	£200 million
New long term loans	...	£500 million

**Offer to existing shareholders**

15.10 Details of BL's existing capital structure are given in Annex 4.1 to Chapter 4. BL's existing shares have a nominal value of 25p. Shareholders who subscribed to the February 1972 rights issue did so at a price of 45p per share. At mid-March 1975 however the price was 8p per share and BL's market capitalisation was about £48 million. At September 1974 the 'book' value of net assets per share was approximately 43p; this is not, in our view, anything like a realisable or realistic figure, and is therefore irrelevant.

15.11 Since it is intended that the Government should be ready to provide new equity capital amounting to some £200 million, this could clearly dwarf the existing equity capital. We therefore suggest that present shareholders should be given an opportunity to sell their shares. This would not only help to protect the Government from the charge of being in a position where it could oppress minority shareholders but would also, to the extent that the offer is accepted, give the Government a larger stake in the ownership of BL.

15.12 In our judgment the Government should offer 10p per existing share of 25p nominal value. This judgment is not based on any fixed relationship with the present market price of 8p but on a view of what might be regarded as fair in all the circumstances. The proposal to reconstruct the capital and to provide new equity capital would be known at the time of the offer. If this offer were accepted by all the existing shareholders the cost would be around £60 million.

15.13 [This paragraph, which comments on the likely attitude of BL shareholders to the offer, is omitted.]

**Capital reconstruction**

15.14 The par value of 25p of the existing ordinary shares is clearly in excess of their present market value. Under the Companies Act 1948 shares cannot be issued at a substantial discount from par value without the approval of shareholders and of the Court. We do not believe this to be a practicable course. In addition it is not possible for BL to issue ordinary shares of a lower nominal value as the purpose of creating such shares would be to have dividend and capital rights more favourable than those attached to the existing



ordinary share capital of BL and this is precluded by the terms of BL's outstanding convertible unsecured loan stock. BL therefore cannot do this without the consent of the Convertible Unsecured Loan Stockholders and there is no apparent incentive to them to agree to this change.

15.15 We recommend that the Corporation should be reconstructed in such a way that its Ordinary shares stand at a reasonable premium over their par value. This should be achieved by the creation of a new company which would make an offer for the existing share capital of BL. We suggest that a new Company, say BL 1975, be formed with an authorised capital of Ordinary shares of 50p nominal value sufficient to permit the offer and the subsequent rights issue. Under a Scheme of Arrangement under Section 206 of The Companies Act 1948 BL 1975 would offer to acquire the existing share capital of BL on the basis of 1 new share of 50p for every 10 existing shares of 25p. At the same time the Government would offer to acquire each new Ordinary share allotted at a price of £1 per share (equivalent to 10p per existing Ordinary share of 25p). The Convertible Loan Stockholders would be entitled to convert their stock and accept the offer. It is unlikely, however, that they would do this because the market value of the loan stock exceeds the value of the offer for the underlying Ordinary shares. We suggest that BL 1975, as part of the Scheme of Arrangement, offers to acquire the existing convertible loan stock in exchange for an issue of a new convertible loan stock in BL 1975 which would carry suitably adjusted terms.

15.16 The scheme for the Ordinary shares would require the approval of a simple majority of those shareholders present and voting at the Meeting but representing (in person or by proxy) not less than three-fourths in number of the shares held by those voting. A Scheme of Arrangement would bind all shareholders and all Convertible Loan Stockholders and would therefore avoid any problem of minority interests in BL as a subsidiary of BL 1975. A Scheme of Arrangement would also provide the opportunity effectively to cancel BL's share incentive scheme. Following the reconstruction and before the rights issue BL 1975 would have an issued share capital of approximately 60 million Ordinary shares with a nominal value of £30 million and a market capitalisation as before (taking the market price of 8p per existing share) of £48 million equivalent to 80p per Ordinary share of 50p.

#### **Rights issue**

15.17 When the capital has been reconstructed, it will be possible to raise the additional £200 million of new capital. Ordinary shareholders of any public quoted company are normally entitled to have first subscription rights on any issue of new equity capital. Consequently, the appropriate way by which the Government can provide new equity capital to BL is by underwriting a rights issue to existing shareholders and holders of convertible unsecured loan stock. The Government will have itself become an ordinary shareholder under the terms of the offer (paragraphs 15.10 to 15.13) and accordingly will have acquired rights to subscribe for some of the new shares. In addition it is likely that most of the existing shareholders will not wish to put new money into BL and will not therefore take up their rights which will be left with the Government as underwriter.

15.18 We propose that the £200 million should be raised by an issue of 200 million of the new Ordinary shares of 50p each (following the reconstruction referred to in paragraph 15.15) at a price of 100p per share, in the proportion of 10 new shares for every 3 Ordinary shares then held; the holders of the existing Convertible Unsecured Loan Stock would also have rights to subscribe based on the assumption that they had approved the exchange of their existing stock for an equivalent stock of BL 1975.

15.19 The new issue of £200 million would represent about 77 per cent of the enlarged capital. The Government's ultimate equity holding would depend on the degree of acceptance of the offer and of the rights taken up by the existing shareholders. [The remainder of this paragraph gives the Team's view about the percentage of the enlarged equity capital likely to be acquired by the Government.]

#### **Loan capital and overdraft**

15.20 As explained in paragraph 15.9, BL will in the period to end September 1978 require, in addition to new equity capital of £200 million, new long term loan capital amounting to some £500 million. We therefore propose that it should be a term of the rights issue that the Government would provide further finance of a specified amount by way of interest bearing 15 to 20 year loan capital. In addition it might be made a condition that, if the Government, following the offer and rights issue, had an equity participation of not less than 75 per cent, the long term finance would be provided on marginally more generous terms. Consideration should also be given to raising part of the non-equity funds (a) from private institutions such as insurance companies and FFI for long term loan capital, and (b) from banks by short term overdraft facilities for working capital (in addition to the existing overdraft facilities which we expect to be maintained).

15.21 We suggest that the timing of the additional long term loans should be:

<i>Year ended 30th September</i>					
1976	...	...	...	...	£100 million
1977	...	...	...	...	£200 million
1978	...	...	...	...	£200 million

#### **Future needs**

15.22 On the inflation assumptions explained in paragraph 14.3 of Chapter 14 it is forecast that a further £500 million will be needed to finance BL's requirements between end September 1978 and end September 1982. It is not possible to foresee the type of financing which will be appropriate for a period so far ahead but the Government must be prepared to make funds available either as loan capital or as a mixture of loan and equity capital.

#### **Relationship with progress in improving labour productivity**

15.23 In Chapter 9 it was stressed that the progress of the new capital expenditure programme and the injection of public money into BL should depend, step by step, on evidence of a contribution by the work force to improving BL's efficiency. It was also explained in Chapter 14 (paragraph 14.11) that in the profit forecast for BL a substantial benefit is being assumed

from this improvement. The phased nature of the additional funding outlined in the preceding paragraphs of this Chapter will provide some review points to assess whether adequate progress is being made in improving productivity. Following the initial injection of £200 million of equity capital there will be review points as follows:

mid 1976	loan of £100 million
mid 1977	loan of £200 million
mid 1978	loan of £200 million
late 1978 onwards	£500 million in loan or loan/equity in further stages.

### **Legal powers**

15.24 We recognise that the Government would not be able under the powers provided by the Industry Act 1972 to implement the proposals about equity capital set out in paragraphs 15.10 to 15.19. Under section 8 of the Act it is not possible either to buy shares from existing shareholders (since this is not a form of financial assistance to the company) or to acquire more than 50 per cent of the equity share capital of a company. However, under the Industry Bill at present before Parliament the 50 per cent prohibition will be removed and the National Enterprise Board, when established, will have the power to purchase shares from existing shareholders. If the Government decides to implement the financing proposals set out in this Chapter, it will clearly wish to give careful consideration to the question of legal powers, bearing in mind the urgent need to make the offer and take up the new equity capital and the possibility that the Industry Bill may not be enacted in time.

[Paras 15.25 and 15.26, which contain the Team's suggestions about the timetable, are omitted.]

### **Summary**

15.27 The main features of our proposals on the future financing of BL are as follows:

- (i) A very large part of the additional funds of £900 million which (allowing for inflation) BL is likely to require up to end September 1978 will have to be provided by the Government.
- (ii) There is a strong case on economic grounds for Government finance to put BL on a viable and profitable basis in the longer term.
- (iii) The Government should be prepared to provide £200 million in equity capital now and up to £500 million in long term loan capital in stages over the period 1976 to 1978.
- (iv) The equity capital should be provided by the Government's underwriting of a rights issue to existing shareholders, following a capital reconstruction by a Scheme of Arrangement. It is likely that relatively few shareholders will take up these rights and the Government will therefore be left with most of the new shares.
- (v) The Scheme of Arrangement should be accompanied by an offer by the Government to buy out existing shareholders at a price of 10p per existing share.
- (vi) BL could, depending on assumptions about inflation, require a further £500 million between end September 1978 and end September 1982 and the Government should be prepared to provide funds for this

purpose either as loan capital or in a mixture of loan and equity capital.

- (vii) Before the various tranches of new money are put into BL, there should be reviews of the contribution being made by BL's workers and management to the improvement of productivity and efficiency.

## APPENDIX A

### Representations received

The Team held discussions with the British Leyland Board and with individual senior executives of the Corporation and its subsidiaries in the United Kingdom and overseas. We also met and received written submissions from representatives of middle management, from representatives of the Confederation of Shipbuilding and Engineering Unions on behalf of the trade unions at British Leyland, from an elected group of British Leyland shop stewards and staff representatives and from shop stewards and staff representatives at the plants visited.

In addition we met or received written memoranda from a number of organisations and individuals with a business or personal interest in the Corporation, including:

- Association of Public Passenger Transport
- Birmid Qualcast
- British Insurance Association (Investment Protection Committee)
- British Steel Corporation
- Confederation of British Industry
- Confederation of British Road Passenger Transport
- Distributors and dealers for British Leyland
- Guest Keen and Nettlefold
- Guild of Motoring Writers
- Joseph Lucas Ltd
- Leyland Blueline Distributors' Association
- London Transport Executive
- Motor Agents' Association
- National Bus Company
- Society of Motor Manufacturers and Traders
- Trades Union Congress
- West Midlands Passenger Transport Executive

## APPENDIX B

### **British Leyland plants visited by the team or their supporting staff**

#### Body and Assembly Division

- Cowley Body Plant
- Cowley Assembly Plant
- MG Assembly Plant, Abingdon
- Swindon Body Plant
- Castle Bromwich Body Plant, Birmingham
- Radiator Plant, Llanelli
- Pressing Plant, Llanelli
- Radiators, Oxford
- Rearsby Components, Leicester
- SU Carburetters, Birmingham

#### Power and Transmission Division

- Longbridge
- Drews Lane, Birmingham

#### Rover/Triumph Division

- Solihull Plant
- Birmingham Engine and Transmission Plant, Acocks Green
- Cardiff Plant, Pengam, Cardiff
- Coventry Plant, Canley
- Liverpool Plant, Speke
- Bordesley Green Plant, Birmingham

#### Jaguar Division

- Radford Engine and Transmission Plant, Coventry
- Browns Lane Assembly Plant, Coventry

#### Parts and KD Division

- Cowley

#### Truck and Bus Division

- Leyland (including Farington Foundry)
- Albion, Scotstoun, Glasgow
- Bathgate, West Lothian
- AEC Plant, Southall
- Guy, Wolverhampton
- Bristol Commercial Vehicles
- Leyland National, Workington

Special Products Division

West Yorkshire Foundries, Leeds and Keighley  
Aveling Barford, Grantham  
Barfords of Belton, Grantham  
Goodwin Barsby & Co, Leicester  
Scammell Trailers, Hoveringham  
Coventry Climax Engines Ltd, Coventry  
Alvis Ltd, Coventry

Prestcold, Theale, Reading







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