

## Trafalgar House Public Limited Company

2.1. This chapter provides a brief summary of Trafalgar's development and organisation together with certain information relating to Trafalgar's main activities in the period 1978 to 1982.

### Development

2.2. In 1957 Eastern International Investment Trust, a small quoted company, formed a wholly-owned subsidiary to undertake property developments. Early projects were housebuilding and residential conversions in the London area. The company prospered and adopted the name Trafalgar House in 1962 when it acquired a portfolio of properties (including one of that name) from Commercial Union Assurance which was by then backing the company's commercial development programme. Trafalgar also continued to specialise in residential investment and development. This generated an increasing amount of construction work in the category known as 'small works', much of which came to be placed with Bridge Walker, a medium-sized building company. In 1963 Trafalgar bought 49 per cent of Bridge Walker's capital. At the same time a joint housebuilding company was formed (51 per cent owned by Trafalgar) and Trafalgar took options to acquire the remaining capital at a later date.

2.3. Even before getting its own Stock Exchange quotation in 1963 Trafalgar was active in company acquisitions. Trafalgar told us that these early acquisitions and all subsequent ones (with the exception of Express Newspapers and Morgan Grampian) had been managed as one group of companies without loss of individual company identity and illustrated the way Trafalgar had developed from residential property to commercial property, to housebuilding and general construction and then to hotels, with hotels leading to considerations of travel and tourism and these leading to passenger shipping.<sup>1</sup>

2.4. Growth had been both by acquisitions and by direct investment. Trafalgar told us, for example, that it had acquired Cunard because it saw acquisition as the more cost-effective entry into shipping whereas more recently it had built a new steel fabrication works at Darlington because it saw that as the way to get 'the best plant in Britain'.

2.5. Appendix 2 lists Trafalgar's acquisitions since 1963 where the consideration was more than £1.2 million. Appendix 3 shows the composition of the Trafalgar cargo and passenger fleet in 1971 compared with 1983.

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<sup>1</sup> Trafalgar told us that it regarded its acquisitions in 1977 of Express Newspapers and of Morgan Grampian, a magazine publishing company, as its only real diversification. In 1982 it had 'de-merged' its newspaper and magazine interests as Fleet Holdings PLC.

## Organisation

2.6. Trafalgar attached particular importance to the organisation and management structure of its business. Appendix 4 shows the organisation and management structure in July 1983.

2.7. Trafalgar told us the basis of its management had been the retention of the individual companies as separate entities, each having its own managing director and operating within a divisional structure under the overall umbrella of Trafalgar. The directors of each company held monthly board meetings to consider cash balances and borrowing levels, profits, workload, employee relations and other operational and policy matters. The divisional managing director or the divisional chairman usually chaired these meetings to ensure a co-ordinated policy and reporting system within the division. The divisional structure had been created in the early 1970s, when it became clear that it was not possible for the small central team at Trafalgar to deal directly with the increasing number of individual companies within the group. The divisional holding companies had been created as direct subsidiaries of Trafalgar. The legal structure of ownership thus largely followed the management structure. The boards of the divisional holding companies met monthly to consider policy and operational matters relating to the individual companies within their divisions. Administrative staff numbers varied from division to division and in most cases were limited to single figures. Divisional chairmen and divisional managing directors reported to the group managing director, and through him to the Trafalgar executive committee or Trafalgar board as appropriate. The Trafalgar executive committee was formally constituted by the Trafalgar board with significant levels of authority. The members at the time of our inquiry were:

Mr N Broackes—Chairman of Trafalgar

Mr E W Parker—Group Managing Director<sup>1</sup>

The committee met weekly and considered all important policy matters together with operational and reporting items. The minutes were circulated to Trafalgar directors and ratified at Trafalgar board meetings. The committee provided the Trafalgar board with proposals and recommendations on major issues. Trafalgar told us that the executive committee arrangements enabled decisions required on major matters in excess of the authority delegated to the group managing director to be taken quickly and formed a vital link between the operating divisions and the Trafalgar board.

2.8. The Trafalgar board met monthly unless required to deal with urgent matters outside the authority of the executive committee. It considered all major policy questions and reviewed such matters as the group managing director's report, minutes of the executive committee, cash balances and borrowings, cash flow and profit forecasts, work in hand, capital expenditure, acquisitions and disposals.

2.9. Trafalgar had a revenue of £1,051 million and employed 32,520 people in 1982. Table 2.1 shows the percentage of total revenue accounted for by Trafalgar's main activities and the number of people employed in them.

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<sup>1</sup> Mr Parker has since been appointed Group Chief Executive.

TABLE 2.1

<i>Activity</i>	<i>Percentage of revenue %</i>	<i>Number employed</i>
Property and investment	7	126
Construction and civil engineering	70	26,784
Shipping, aviation and hotels	23	4,512
Services and miscellaneous	—	1,098
Total revenue £1,051 million	100	32,520

Source: Trafalgar.

### Revenue and profits

2.10. Appendix 5 summarises Trafalgar's revenue and profits for the five years 1978 to 1982. Total revenue increased each year (except 1982 when newspapers and magazines were demerged). At £1,051 million in 1982 it was 27 per cent higher than in 1978. The figure for 1978 included revenue attributable to newspaper and magazine interests but 1982 did not, because those interests were demerged in 1982. The rise in revenue from contracting and civil engineering accounted for most of the increase. Property and investment revenue was also higher in 1982 than 1978. Revenue in the shipping, aviation and hotels division showed some fluctuations. In 1982 it was £224.1 million compared with £233.2 million in 1978. Total pre-tax profits fell to £43.7 million in 1979 but increased in subsequent years rising to £65.6 million in 1982 compared with £60.6 million in 1978. Appendix 5 also shows each division's contribution to total profits in each of the five years.<sup>1</sup>

### Balance sheets

2.11. Appendix 6 summarises Trafalgar's balance sheets as at 30 September in each of the years 1978 to 1982. The total value of fixed assets declined over the period due mainly to the reductions under the headings of properties, ships and aircraft, and to the demerger of the group's newspaper and magazine interests in 1982. In 1982 associated company interests and investments included £15 million in respect of Trafalgar's holding of convertible unsecured loan stock in Fleet Holdings to which the newspaper and magazine interests were transferred and £10 million in respect of the cost of the acquisition of Redpath Dorman Long, the terms of which acquisition were not agreed in time to consolidate the accounts of this subsidiary in the group's 1982 accounts. Borrowings were substantially reduced during the period and the debt/equity ratio fell from 81.5 per cent at 30 September 1978 to 36.6 per cent at 30 September 1982.

### Source and application of funds

2.12. Appendix 7 summarises Trafalgar's statements of source and application of funds from 1978 to 1982.

<sup>1</sup> As indicated in note 1 of Appendix 5 the allocation of interest was changed in 1980. This needs to be borne in mind in comparing the divisional figures for 1978 and 1979 with those for 1980, 1981 and 1982.