

The British Electric Traction Company PLC

History and development

3.1. The British Electric Traction Company PLC (BET), whose shares are widely spread with no dominant shareholder, was founded in 1896 with two interests:

- (a) passenger and freight transport; and
- (b) electricity generation and distribution.

3.2. It became the leading tramway operator and by 1906 was responsible for operating 15 per cent of the tramways in the United Kingdom. After the First World War BET began to develop bus transport on a large scale as a replacement for trams. It also continued to run tramways until the 1920s when its tramway leases ran out and local authorities exercised their rights to take over the tramways. BET retained its stake in the bus companies until 1968 when it sold its interests to the Transport Holding Company.

3.3. The electricity sector of BET's early activities also flourished, and was an important part of the company's interests until nationalisation in 1947.

3.4. The compulsory purchase of its tramway leases in the 1920s led BET to acquire a wide range of other interests including several laundry and cleaning companies, a printing and publishing business and some Scottish gas manufacturing companies (which were themselves nationalised in 1947).

3.5. Following the nationalisation of its power interests in 1947 BET moved into several other areas some of which extended the group's interests in existing fields and others broke new ground.

- (a) BET acquired a substantial minority interest in Broadcast Relay Service Ltd (later renamed Associated-Rediffusion) in 1947. This became a controlling interest in 1967 and BET acquired the remaining 36 per cent of Rediffusion's equity in 1983. In 1954 BET, Rediffusion and Associated Newspapers formed Associated-Rediffusion as a TV programme contractor. After one year BET and Associated-Rediffusion bought out Associated Newspapers' interest in Associated-Rediffusion which thus became a wholly-owned part of the group. Since the re-allocation of ITV contracts in 1968, BET's interest in this sector has been a 50 per cent stake in Thames Television. Between 1955 and 1968 the group expanded its interests in entertainment by acquiring Wembley Stadium Ltd, Walport Ltd, Humphries Holdings Ltd and The Ditchburn Organisation Ltd.
- (b) BET went into plant hire in 1949 when it acquired Eddison Plant Ltd. This interest was increased and diversified into construction following the sale of its bus interests in 1968. Acquisitions included Boulton & Paul Ltd, Grayston Ltd and J D White Ltd.

- (c) In 1950 BET acquired a minority interest in Initial (now Initial PLC) substantially increasing its interest in the field of textile maintenance, mainly in sectors in which Advance also operated. (See also paragraphs 3.7 to 3.10.)
- (d) In 1956 BET acquired a 20 per cent stake in United Transport Company having already participated with the latter in African and Jamaican transport ventures. A 41 per cent interest in United Transport Overseas Ltd, the holding company for United Transport's overseas passenger, freight and touring interests, was taken in 1963, and United Transport Company became a wholly-owned subsidiary of BET in 1971.
- (e) BET acquired The Argus Press Group in 1966, greatly extending its interests in printing and publishing.
- (f) A number of other significant investments were made after the bus companies were nationalised in 1968. The Argus Press expanded its local newspaper interests and Rediffusion took a stake in commercial radio. BET also acquired Biffa Ltd (industrial waste and household refuse disposal) and Re-Chem International Ltd (processing toxic industrial waste) and joined a consortium to search for oil in the North Sea.

3.6. In recent months the group has disposed of its United Kingdom television (and video cassette recorder) rental and cable franchise interests in Rediffusion, the North Sea venture and 51 per cent of Wembley Stadium Ltd.

Textile maintenance interests

3.7. BET first acquired an interest in laundries in 1934 when it formed Laundry Services Ltd to acquire control of several laundry and cleaning companies. In 1935 Laundry Services Ltd and Advance Laundries Ltd (in which BET then owned no shares) together established Advance Linen Services Ltd to tackle the hotel and restaurant table linen market. Subsequently the joint venture company moved into the cabinet towel market, and BET built up a 25 per cent interest in Advance Laundries Ltd between 1937 and 1952. In 1955 Laundry Services Ltd and Advance Laundries Ltd merged to become a subsidiary of BET, which subsequently increased its holding to 80.8 per cent. Advance Linen Services Ltd (now called Advance Central Services Ltd) remained a separate entity although wholly owned by BET and Advance.

3.8. BET took a 10 per cent share in Initial in 1950, a further 12 per cent in 1954 and had built this up to 39.9 per cent by 1973. BET's interest has now reached 42.4 per cent, including 1.7 per cent acquired by market purchases since the present bid was made. The rest of Initial's ordinary shares are widely spread with no other shareholder having 5 per cent or more.

3.9. BET first acquired an interest in Sunlight in 1937 and at its peak BET's holding amounted to 20.3 per cent of Sunlight's equity. Much of this was sold in 1980 and the holding has since been reduced to 4.9 per cent. This holding is now regarded by BET purely as an investment which has no bearing on the trading activities of Initial and Advance.

3.10. At the start of this inquiry BET held the following interests in textile maintenance companies:

- (a) 42.4 per cent of the equity of Initial and 8 per cent of its 5.95 per cent Cumulative Preference Shares.
- (b) 80.8 per cent of the equity of Advance, 17.2 per cent of its 8 per cent Cumulative Preference Stock and 39 per cent of its 5.5 per cent Second Preference Stock. BET also owned 41.5 per cent of Advance Central Services Ltd, the balance of which is owned by Advance. (Under a scheme of arrangement Advance became a wholly-owned subsidiary of BET at the end of 1984.)
- (c) 4.9 per cent of the equity of Sunlight.

Structure

3.11. BET's activities are organised in six divisions:

- (a) transport;
- (b) industrial services;
- (c) construction;
- (d) electronics;
- (e) leisure; and
- (f) publishing.

3.12. These divisions had a combined turnover of some £1,263 million in 1984, including about £487 million overseas. Nearly 50,000 persons were employed, almost half of this number overseas mostly in transport. All the other five divisions are predominantly home-based. Divisional activities are briefly summarised in Table 3.1 (overleaf).

3.13. The relative importance of each division is indicated by Table 3.2 (overleaf) which shows the proportion of turnover, pre-tax profit and employees for each division (disregarding general investments and central costs).

3.14. Each division, with one exception, is headed by a principal subsidiary company and has its own Board of management. Five of these Boards are chaired by executive directors of the BET main Board (the exception being the publishing division). Appendix 1 shows the present allocation of these responsibilities and Appendix 2 gives the structure of Industrial Services Division, which is typical of the six divisions and is the one with which we are most concerned in this inquiry.

3.15. There are six executive directors on the BET main Board supported by a further ten executives who are not directors. Five of the executive directors and four of the other executives are responsible for major subsidiary companies. The other executive director is the finance director and the other six executives have the functions shown at the foot of Appendix 1. Although the BET executive meets regularly, it is essentially an advisory management group.¹ The six executive directors are directly responsible for the operations of the group reporting through the managing director to BET's Board.

¹ But see also paragraphs 3.17 and 3.18.

TABLE 3.1 Divisional functions

Division	Turnover £m	1984 Number of employees		Nature of business
		Home	Abroad	
Transport	425	2,400	21,650	The operation of specialist freight vehicles home and abroad and the operation of buses on a large-scale in Africa. Also operates touring companies freight forwarding, container and transit services internationally.
Industrial services*	153	3,254	157	Textile maintenance, particularly linen, cabinet towel and workwear rental. Waste disposal.
Construction	184	5,982	353	Standard joinery and prefabricated steel for the construction industry, doors, windows, staircases, cupboards and kitchen units. Plant hire, including scaffolding, cranes, forklift trucks and the like.
Electronics	306	9,850	1,797	Rental and cable TV, flight simulators, computers, radio and TV communication equipment, business and music services. Commercial radio (home and abroad).†
Leisure	106	1,160	105	TV programme contractor; film and video equipment, instructional and feature films, stadium management, music and other equipment. Film and video processing.
Publishing	89	2,394	310	Magazine and local newspaper publishing at home and abroad—including some on computer tape. Conference organising.
Total	1,263‡	25,040	24,372	

Source: BET.

- * £153 million includes BET's share of Initial, but the figures for employees relate only to BET.
- † The position as at 31 March 1984. TV rental business and some cable TV since disposed of.
- ‡ Excludes £6 million North Sea oil.

TABLE 3.2 BET's divisions (as at 31 March 1984)

Division	Turnover*	Pre-tax profit*	per cent Employees	
			UK	All
Transport	33.5	29.9	9.6	48.6
Industrial services	12.0	20.5	13.0	6.9
Construction	14.5	16.9	23.8	12.8
Electronics	24.2	15.7	39.2	23.5
Leisure	8.4	11.7	4.6	2.6
Publishing	7.0	7.4	9.5	5.5

Source: BET.

Note: This table takes no account of the recent disposals by BET of Rediffusion and of 51 per cent of Wembley Stadium Ltd.

- * Excludes North Sea oil.

3.16. The Boards of BET's principal subsidiaries typically consist of:

- (a) two or three BET executives one of whom is the chairman (and sometimes also the chief executive);

- (b) a chief executive, normally designated Managing Director, who has day-to-day responsibility for the conduct of the subsidiary's operations, and other executives of the subsidiary; and
- (c) in most cases, one or two non-executive directors from outside BET.

BET also nominates the Chairman and one or two other non-executive directors to the twelve-man Board of Initial, its largest associated company.

3.17. BET says that its current strategy is to concentrate upon a limited number of business sectors of which it has long experience and which it consequently understands well. Consistent with this, there is a greater degree of intervention by BET's executives in the subsidiaries' operations than has hitherto been the case. None the less local executives retain substantial responsibility for, and discretion in, the management of their own companies.

3.18. Formal elements of central control are to be found in comprehensive monthly and quarterly financial reports from each subsidiary and in the preparation of annual plans. In the past the initiative in the planning process lay very much with the operating subsidiaries. Apart from the subsidiary's chairman BET's central executives intervened very little in the preparation of plans. Now BET's executives have a clearer idea of their objectives for the group and seek to ensure that those objectives are reflected in the plans of the operating subsidiaries. BET's executives do not as a rule set formal pre-determined targets for their operating subsidiaries.

3.19. In addition to these formal processes there is a significant degree of contact between the Head Office and the local operating subsidiaries mostly through the chairman and chief executive of each subsidiary. The degree of contact varies, but BET executives will take a closer interest in the activities of a subsidiary which is in difficulties or which is in a phase of rapid expansion or change.

Industrial Services division

3.20. Within the Industrial Services division (Appendix 2), Biffa Ltd disposes of industrial waste and household refuse and Re-Chem International Ltd reclaims and processes chemical, toxic and flammable waste. These activities accounted for some £20 million of the division's £153 million turnover in the year ended 31 March 1984. £93.5 million is BET's 41 per cent share of the turnover of Initial, whose activities are described in Chapter 4, and the balance of about £40 million is the turnover of Advance.

3.21. Thus Advance is the part of the division with which we are most concerned. The structure of Advance conforms to the pattern described in paragraph 3.16. Its Board numbers seven, of whom:

- (a) the chairman is a member of the BET Board;
- (b) one other non-executive director is a BET executive;
- (c) four members are executive directors; and
- (d) one member is non-executive and has no connection with BET.

The day-to-day running of the company is vested in the Business Management Committee, headed by the managing director. Following a recent reorganisation rental operations in the United Kingdom have been placed under an

operations director to enable the managing director to concentrate on corporate development in both the United Kingdom and the United States of America.

3.22. Advance's operations are based on five commercial regions, each with its own managing director and accounting facilities, and one division (Advance Laundries) which concentrates on contract and domestic work and whose activities cover only the London and southern regions of the country. A map indicating Advance's operational boundaries is at Appendix 3. Within each commercial region the operational work is handled through branches (numbering 24 and employing 930 personnel) which provide a full range of services. There is a central computer with VDUs at branch level. Except for the Midlands each commercial region has at least one plant to satisfy the processing requirements of its branches. In general the branches are on sites away from the laundries and the work is transported in bulk (ie 'trunked') daily; some work is 'traded out' to other regions to equalise plant loading and a very small amount is processed by other contractors, including Initial.

Activities of Advance

3.23. Advance is engaged almost exclusively in the textile maintenance and allied markets. It provides cabinet towels, linen, workwear, dust control equipment, air freshening and air cleaning services, mostly on a rental basis. Contract and domestic laundry is undertaken on a substantial scale, with smaller interests in dry cleaning and certain ancillary and allied services. The relative scale and importance of these functions is shown in Table 3.3.

TABLE 3.3 Advance: turnover in the home market, 1983

<i>Sector</i>	<i>Turnover £'000</i>	<i>Percentage of Advance's turnover</i>	<i>Percentage of home market</i>
Cabinet towels	15,323	41.1	25.5
Linen rental	3,349	9.0	7.4
Workwear rental	6,562	17.6	5.2
Dust control	2,699	7.2	13.5
Contract and domestic*	4,873	13.1	2.3
Ancillary rental	4,481	12.0	18.3
Total	37,287	100.0	7.3

Source: BET.

* Including both laundry and dry cleaning.

3.24. These services are marketed by a central sales force based on London dealing with National Group and National Agreement accounts over the whole range, and by regional sales forces based on the regions shown in Appendix 3. Representatives in the regional forces commonly concentrate on one of several categories within the sectors of Table 3.3, eg dust control (mats and mops) or washroom services (towel cabinets, air fresheners, soap, toilet tissues and warm air dryers). The majority of customers are dealt with regionally.

3.25. About one-third of the towel cabinets out on hire from Advance are with a few major organisations, one-third with customers using six cabinets or more and the remainder with those using five or less. Very few customers have 50 cabinets or more.

3.26. In workwear the great bulk of Advance's customers are in the 'lighter' end of the market (that is to say, using polyester-cotton overalls which do not get badly soiled). Very few customers employ more than 200 wearers and the average number of wearers per customer is quite low.

3.27. The main items purchased by Advance are cabinet towels, workwear garments and new towel cabinets. It also reconditions cabinets for further use. Advance's policy is to buy from the most convenient source and towels and cabinets are purchased from both home and overseas sources. Initial supplies a small proportion of these cabinets and has recently become competitive in towels. Workwear, which is mainly of polyester/cotton fabrics, is all home-produced and Initial supplies only a small part because its expertise is in cotton.

3.28. Distribution, collection and delivery are major features of the business, using a fleet of 600 vehicles. At branch level this is integrated as far as possible and the same vehicle will carry cabinet towels, workwear and rental linen generally on a weekly cycle. Separate vehicles are used for dust control (two-weekly) and air fresheners, soap and clean air servicing (monthly or two-monthly).

BET financial information

3.29. BET makes up its accounts to 31 March each year using the historical cost convention.¹ Table 3.4 summarises its balance sheets at 31 March for each of the last six years.

TABLE 3.4 BET: summarised balance sheets

	£ million					
	31 March					
	1979	1980	1981	1982	1983	1984
Tangible fixed assets	367.2	416.6	447.5	502.3	582.4	600.8
Current assets less liabilities other than borrowings	110.4	111.1	127.4	114.4	74.5	13.0
Capital employed	477.6	527.7	574.9	616.7	656.9	613.8
Borrowings*	(120.1)	(147.7)	(161.9)	(176.0)	(189.5)	(133.0)
Net assets	357.5	380.0	413.0	440.7	467.4	480.8
Share capital and reserves	270.7	292.5	327.3	342.0	379.0	422.2
Minority interests	70.0	69.5	73.5	75.1	81.7	31.8
Intangible assets	(25.3)	(29.4)	(30.9)	(23.5)	(37.9)	(43.7)
Equity	315.4	332.6	369.9	393.6	422.8	410.3
Deferred taxation†	42.1	47.4	43.1	47.1	44.6	70.5
	357.5	380.0	413.0	440.7	467.4	480.8
Gross debt/equity ratio (%)	38.1	44.4	43.8	44.7	44.8	32.4

Source: BET (extracted from BET accounts and offer document).

* Borrowings consist of loan capital, other loans and overdrafts.

† The increase in deferred taxation in 1984 was largely attributable to the corporation tax changes contained in the Finance Act 1984.

¹ BET discontinued publishing current cost accounts after 1982-83.

3.30. Table 3.5 summarises BET's profit and loss accounts for each of the last five years.

TABLE 3.5 BET: summarised profit and loss accounts

	1980	1981	1982	1983	£ million 1984
Turnover*:					
Group	757.4	812.2	883.6	1,002.3	1,074.4
Share of associated companies	127.9	127.4	150.3	175.8	194.3
	<u>885.3</u>	<u>939.6</u>	<u>1,033.9</u>	<u>1,178.1</u>	<u>1,268.7</u>
Operating profit:					
Group	72.4	64.1	60.7	68.3	82.3
Share of associated companies	10.6	10.8	16.5	17.6	20.3
	<u>83.0</u>	<u>74.9</u>	<u>77.2</u>	<u>85.9</u>	<u>102.6</u>
Investment income	9.4	10.2	8.9	7.6	7.4
Profit before interest payable	92.4	85.1	86.1	93.5	110.0
Interest payable	(21.5)	(24.3)	(19.4)	(23.3)	(24.3)
Profit before taxation	70.9	60.8	66.7	70.2	85.7
Taxation	(27.6)	(13.1)	(31.6)	(19.2)	(24.0)
Profit after taxation	43.3	47.7	35.1	51.0	61.7
Minority interests	(7.2)	(8.5)	(8.7)	(10.0)	(5.3)
Extraordinary items†	1.5	(1.0)	(1.6)	(5.2)	(38.0)
Profit attributable to shareholders	37.6	38.2	24.8	35.8	18.4
Dividends	(11.4)	(11.5)	(12.2)	(15.2)	(24.6)
Retained profit	<u>26.2</u>	<u>26.7</u>	<u>12.6</u>	<u>20.6</u>	<u>(6.2)</u>
Earnings per ordinary share before extraordinary items (pence)	24.3	26.2	17.4	27.1	28.9

Source: BET.

* Turnover includes the entire turnover of Advance (a subsidiary company) and BET's share of Initial (an associated company).

† Extraordinary items in 1984 include £37.6 million for deferred taxation as a result of the corporation tax changes contained in the Finance Act 1984.

3.31. BET's turnover and profits for each of the last three years are analysed by divisions and by territories in Appendix 4.

3.32. Table 3.6 shows BET's returns on average capital employed and on net assets for each of the last five years.

TABLE 3.6 BET: returns on average capital employed and net assets

	1980	1981	1982	1983	1984
Average capital employed (£m)	502.6	551.3	595.8	636.8	635.4
Profit before interest payable and tax (£m)	92.4	85.1	86.1	93.5	110.0
Return on average capital employed (%)	18.4	15.4	14.5	14.7	17.3
Average net assets (£m)	368.7	396.5	426.9	454.0	474.1
Profit before tax (£m)	70.9	60.8	66.7	70.2	85.7
Return on average net assets (%)	19.2	15.3	15.6	15.5	18.1

Source: MMC.

3.33. Advance makes up its accounts to 31 December each year. Table 3.7 summarises its historical cost balance sheets at 31 December 1982 and 1983.

TABLE 3.7 Advance: summarised balance sheets

	£ million	
	31 December	
	1982	1983
Fixed assets	22.6	26.6
Current assets less liabilities other than borrowings	3.1	3.1
Capital employed	25.7	29.7
Borrowings*	(0.2)	(4.2)
Net assets	25.5	25.5
Share capital and reserves	18.6	12.6
Minority interests	7.3	5.3
Deferred taxation less ACT recoverable†	25.9 (0.4)	17.9 7.6
	25.5	25.5
Debt/equity ratio (%)	0.8	23.5

Source: Advance.

* Borrowings consist of loans and overdrafts.

† The increase in deferred taxation in 1983 was largely attributable to the corporation tax changes contained in the Finance Act 1984.

3.34. Table 3.8 summarises Advance's profit and loss accounts for 1982 and 1983.

TABLE 3.8 Advance: summarised profit and loss accounts

	£ million	
	Year to 31 December	
	1982	1983
Turnover	37.7	40.5
Cost of sales	(19.7)	(21.3)
Gross profit	18.0	19.2
Other operating expenses	(13.9)	(14.6)
Operating profit	4.1	4.6
Investment income	0.5	0.5
Profit before interest payable	4.6	5.1
Interest payable	—	(0.2)
Profit before tax	4.6	4.9
Tax	(1.8)	(2.2)
Profit after tax	2.8	2.7
Minority interests	(0.9)	(0.8)
Extraordinary items*	1.9 (0.1)	1.9 0.2
Profit attributable to shareholders	1.8	2.1
Dividends	(1.1)	(1.2)
Retained profit	0.7	0.9
Earnings per ordinary stock unit (pence)	6.3	6.3

Source: Advance.

* In 1983 a further £4.9 million extraordinary tax provision was charged to profit and loss account in respect of the corporation tax changes contained in the Finance Act 1984. This was covered by an equivalent transfer from reserves.

3.35. Table 3.9 shows Advance's returns on average capital employed and net assets for 1983.

TABLE 3.9 Advance: return on average capital employed and net assets, 1983

Average capital employed (£m)	27.7
Profit before interest payable and tax (£m)	5.1
Return on capital employed (%)	18.4
Average net assets (£m)	25.5
Profit before tax (£m)	4.9
Return on average net assets (%)	19.2

Source: MMC.
