

PO-CH/NL/0248

PART A

Part A

SECRET

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Begins : 17/12/86.

Ends : 12/3/87.



PO -CH /NL/0248



PART A

Chancellor's (Lawson) Papers:

WATER INDUSTRY
PRIVATISATION

Disposal Directions: 25 Jan

26/9/95.

NL/0248

-CH

PO

PART A

SECRET

FROM: D J L MOORE
DATE: 17 DECEMBER 1986

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Scholar
Mr Sedgwick
Mrs M E Brown
Mr M L Williams
Mr Colman
Mr McIntyre

PRIVATISATION PROCEEDS 1986-87:
GAS DEBT

British Gas are due to redeem £750 million debt between 20 March and 20 April 1987. We have to tell them by 10 January when we want this repayment, or repayments if we were to have some in 1986-87 and some in 1987-88. They have refused to let us defer our decision beyond 10 January.

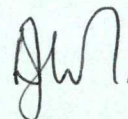
2. As I explained at your meeting on 12 December we now expect to get rather less than the £4¼ billion target for 1986-87 if, as seems probable, there are no further repayments of BT preference shares.

3. The position is set out in the attached table which shows total proceeds of £4,574 million in 1986-87 with nothing for BT preference shares beyond the £250 million already repaid and the full £750 million for Gas debt. The total would improve by £100 million if we can get £600 million as the first instalment from BA. This is the aim agreed at your meeting but since we cannot yet be confident that it is deliverable we have been cautious and not taken credit for more than £500 million in the table. The other main uncertainty is whether we get the £110 million assumed for the ROFs in 1986-87 rather than 1987-88.

SECRET

X | 4. Unless you wish otherwise or anything new emerges in the meantime on the BT front, we will write to British Gas on Thursday 8 January to inform them that we wish the full £750 million to be repaid in this financial year.

5. No decisions are called for on 1987-88. The total of about £5.8 billion does not take any credit for the possibility of redemption of up to £500 million BT preference shares. We would be down to about £4 billion if BP had to be deferred.



D J L MOORE

Enc.

Secret**PRIVATISATION PROCEEDS**
1986-87 to 1990-91

Please See Attached Explanatory Note

£ million

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
BRITISH AIRWAYS BOARD	500*	500	-	-	-
BRITISH AIRPORTS AUTHORITY	-	750*	-	-	-
BGC WYTCH FARM	-	-	130	-	-
BRITISH GAS DEBT	750	250	-	800	350
BRITISH GAS EQUITY	1785*	1700	1575	-	-
BRITISH PETROLEUM	-	1850*	1850	-	-
BRITISH TECHNOLOGY GROUP	10	10	6	4	-
BT ORDINARY SHARES	1090	-	2200*	1600	1600
BT LOAN STOCK	53	23	85	92	100
BT PREFERENCE SHARES	250	-	-	-	-
CABLE & WIRELESS	9	-	-	-	-
FORESTRY COMMISSION	13	9	7	6	-
LAND SETTLEMENT ASSOC	1	-	-	-	-
ROLLS ROYCE	-	700*	-	-	-
ROYAL ORDNANCE	110	-	-	-	-
PLANT BREEDING INSTITUTE	-	35	-	-	-
MOTORWAY LEASES	3	6	9	5	-
WATER AUTHORITIES	-	-	1000*	1500*	1500*
EXTERNAL FINANCE OFFSETS	-	-	-	-	-
CENTRAL PRIVATISATION PROCEEDS	4574	5833	6862	4007	3550

* Major sales.

Notes

1. All figures to the nearest £ million.
2. No provision made for possible further redemptions of BT preference shares.



FROM: J J HEYWOOD
DATE: 6 March 1987

PS/CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Mr Monck
Mr Moore
Mr Scholar
Mrs Brown
Ms Evans

QL DISCUSSION: WATER

The Chancellor will be interested to know the outcome of the QL meeting on 4 March.

2. Mr Ridley said that a Water Vires Bill would be needed in advance of the main Water Bill and the Vires Bill would be ready for introduction in the summer if there were to be an early election.

3. On the main Water Bill, Mr Ridley said that he had decided to make some radical changes to the proposed approach. Once he had obtained the agreement of colleagues to this new approach, further consultation would be required. This meant that the Water Bill could not be ready for introduction until January 1988 at the earliest, and in these circumstances, he favoured deferral until 1988/89.

4. The Financial Secretary emphasised that deferral would risk losing the momentum of the privatisation programme and would lead to a "bottleneck" in the second session which might lead to further slippage. He pointed out that Mr Ridley's new approach might lead to an easier passage for the Water Bill, making a late introduction more feasible.

SECRET and PERSONAL

5. QL concluded, nevertheless, that it would not be realistic to introduce a major and controversial Bill late in the 1987/88 session. They recognised that the Chancellor remained free to seek to persuade the Cabinet to take a different view.

J.H.

JEREMY HEYWOOD
Private Secretary

SECRET AND PERSONAL



FROM: A W KUCZYS
DATE: 9 March 1987

*5/11 with
response
(or 13/3)
D)*

PS/FINANCIAL SECRETARY

cc: PS/CST
Sir P Middleton
Mr Monck
Mr D J L Moore
Mr Scholar
Mrs Brown
Miss C Evans

QL DISCUSSION: WATER

The Chancellor was grateful for your note of 6 March. He has asked when we actually need, on our privatisation timetable, to privatise the first water authority?

A handwritten signature in black ink, appearing to be "A W K".

A W KUCZYS

- 1. MR D J L MOORE
- 2. FINANCIAL SECRETARY

FROM: MRS M E BROWN
 DATE: 11 March 1987

Note at end

- cc Chancellor
- Chief Secretary
- Sir P Middleton
- Mr F E R Butler
- Mr Monck
- Mr McIntyre
- Mr Tarkowski

Thanks. This is helpful. Clear point to Labour post to Labour is X, as agreed in Mr Monck page 3.

JW 11/3

WATER PRIVATISATION: TIMING AND PROCEEDS

The Chancellor has asked when we actually need, on the privatisation timetable, to privatise the first water authority (Mr Kuczys' minute to Mr Heywood of 9 March).

2. Mr Ridley's revised proposals mean that water privatisation will take rather longer to achieve. On previous plans, legislation would have received Royal Assent by July 1988, and the first flotation would have been in December 1988. DoE now estimate that if legislation were introduced in the first post-Election session, Royal Assent would not be until October 1988, and the first flotation would be in Summer 1989. If the main water bill were deferred to the second Session (even though the Vires Bill had been passed in the first Session) the first flotation would not be until Summer 1990. The main reasons for delay are that the legislation will take longer to prepare; and more time is needed between Royal Assent and vesting in order to separate out the new River Authority (covering environmental functions) and the water PLCs (covering the utility functions).

3. We had previously been expecting the first water receipts in 1988-89, contributing to total proceeds as follows:-

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Total privatisation proceeds:	6862	4007	3550
of which, water:	1000	1500	1500

Conclusions

(i) Mr Ridley's revised proposals for water privatisation mean that the first flotation slips into 1989-90. That does not in itself matter to proceeds: we could expect to reach the 1988-89 target without water, even on a worst case assumption about the size of BP and BT proceeds.

(ii) But if the main water privatisation legislation were deferred to the second post-Election session, the first flotation would not be until 1990-91. We estimate that the proceeds target for 1989-90 could still be met if the BP and BT share prices hold up. But on a worst case assumption, we would fall short of the target by £500 million in that year without any water proceeds, and assuming no proceeds from Steel and Electricity.

(iii) The case for taking water privatisation in the first post-Election Session cannot thus be based too strongly on arguments about proceeds alone. Maintaining the momentum of the privatisation programme is perhaps the most important consideration. If the first water authority were not sold until summer 1990, there would have been a gap of 3 years between the last primary flotation (ie. BAA) and this first Water sale. (The gap might be slightly reduced if Steel were sold before then, but we cannot rely on that and it might not be by flotation). There would also be a serious danger of bunching, both in the legislative timetable and in actual sales, as further privatisations came on stream.

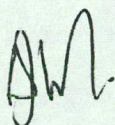
Mary Brown.

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1. I am planning to put forward later in the month a more comprehensive assessment of the possibilities for proceeds from 1987-88 to 1990-91; though there are so many uncertainties that the picture will be far from clear.

2. In the meantime I think the chances are that one way or another we should get to £5 billion in both 1988-89 and 1989-90 even without any Water sales in those years. Depending on assumptions about the BP price a further trick up our sleeve would be to have 3 BP rather than two BP instalments and thus to smoothe out proceeds. And there is always the possibility of BT redeeming their £500 million preference shares in one of these years.

3. The main worry over deferring Water is in (iii) above - no primary sales for 3 years and then a potential log-jam of 10 Water Authority sales plus a series of Electricity sales (the numbers depending on whether the 12 Area Boards were sold separately and whether, in addition, the CEGB was split up) and also Steel if it is not sold in 1989-90.



[D.J.L.M.]

11 March 1987

SECRET

PRIVATISATION PROCEEDS 1988-89

<u>Central Case</u>		<u>Worst Case</u>
BP (2nd of 2 instalments)	2100 ⁽¹⁾	1400 ⁽⁴⁾
BT (1st of 3 instalments)	2800 ⁽²⁾	2000 ⁽⁵⁾
Other	1682 ⁽³⁾	1682
	—————	—————
	6582	5082
	—————	—————

(1) Assumes shares sold at current market price (799p), discounted by 7 per cent, with second instalment of 50 per cent.

(2) Assumes shares sold at current market price (248p), discounted by 7 per cent, with first instalment of 40 per cent.

(3) Comprises: BGC 3rd instalment 1575
 BT loan stock (assuming BT
 do not exercise option to defer
 redemption) 85
 Miscellaneous 22

—————
 1682

(4) Assumes shares sold at 1986-87 low of 518p, discounted by 7 per cent, with second instalment of 50 per cent.

(5) Assumes shares sold at 1986-87 low of 178p, discounted by 7 per cent, with first instalment of 40 per cent.

SECRET

PRIVATISATION PROCEEDS 1989-90

	<u>Central Case</u>	<u>Worst Case</u>
		(£ million)
BT equity	4200 ⁽¹⁾	3500 ⁽²⁾
Wytch Farm	130	130
Gas debt	800	800
BT loan stock	92	92
Miscellaneous	15	15
	5237	4537

(1) 2nd and 3rd of three instalments. Assumes sold at current market price (25lp), discounted by 7 per cent, with second and third instalments taken in the same financial year and each amounting to 30 per cent of total proceeds.

(2) Assumes sold at 1986-87 low of 178p, discounted by 7 per cent, with second and third instalments taken in the same financial year and each amounting to 30 per cent of total proceeds.

Note: No account is taken of possible sales of BT loan stock, from November 1989 [initial sales likely to be small in view of the need to continue paying off outstanding liability to Post Office Pension Fund until 1991-92.]

SECRET



FROM: A W KUCZYS
DATE: 12 March 1987

MRS M E BROWN

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr D J L Moore
Mr McIntyre
Mr Tarkowski

WATER PRIVATISATION: TIMING AND PROCEEDS

The Chancellor was grateful for your minute of 11 March. He has commented that this is helpful. Clearly the point to hammer home is the one in your final paragraph, and reinforced by paragraph 3 of Mr Moore's postscript, about maintaining the momentum of privatisation.

A handwritten signature in black ink, appearing to be "AWK".

A W KUCZYS



FROM: J J HEYWOOD
DATE: 12 March 1987

PS/CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr D J Moore
Mrs Brown
Mr McIntyre
Mr Tarkowski

WATER PRIVATISATION: TIMING AND PROCEEDS

The Financial Secretary has read Mrs Brown's useful minute of 11 March.

2. He has commented: "Perhaps I ought to press DTI to get on with Steel." He has also suggested that the Chancellor might want to press for Steel when QL's recommendations are discussed at Cabinet, ^{*} if Water is delayed until the second Session of a new Parliament.

* on 26 March
AJK

JEREMY HEYWOOD
Private Secretary