

PREM19

32

ECONOMIC POLICY

(Privatization)

(Part 2)

PREM 19/32



PART 2

MT

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SECRET

Confidential Filing

Disposal of Public Sector Assets.

ECONOMIC POLICY

Part 1: June 1979

Part 2: July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
26.7.79							
1.8.79							
3.8.79							
6.8.79							
15.8.79							
20.8.79							
22.8.79							
24.8.79							
4.9.79							
10.9.79							
13.9.79							

PREM 19 / 32

● PART _____ 2 _____ ends:-

E (DL) (79) 8th Meeting of 19.12.79.

PART _____ 3 _____ begins:-

S/S Industry to ch of Ex of 11.2.80.



Econ Pd

10 DOWNING STREET

From the Private Secretary

5 December 1979

Thank you for your letter of 3 December (to Nick Sanders) about the sale of new town assets.

The Prime Minister agrees with the Secretary of State's proposal that the Private Bill to which you refer should be prevented from achieving a Second Reading. She agrees that the Government's opposition to the proposals contained in the bill should be made clear, and she is content that the Government's attitude should be announced following Mr. Finsberg's meeting with the deputation from Stevenage this afternoon.

I am sending copies of this letter to Alistair Pirie (Chief Secretary's Office), Godfrey Robson (Scottish Office), George Craig (Welsh Office), Ian Ellison (Department of Industry) and Murdo Maclean (Chief Whip's Office).

M. A. PATTISON

D.A. Edmonds, Esq.,
Department of the Environment.

MB

PRIME MINISTER

cc. press office

1.



This came up at a media meeting.

2 MARSHAM STREET
LONDON SW1P 3EB

Agree

Yes not 1) The Bill should be prevented from achieving second reading;

2) Government's attitude should be made public, for the reasons at "X" overleaf; and this should be done tomorrow?

Yes not

Dear Nick

SALE OF NEW TOWN ASSETS: STEVENAGE

MFD 4/11.

My ref:

Your ref:

3 December 1979

You had a word with me last week about the press reports that Stevenage Borough Council are promoting a Private Bill to take over the assets of the Stevenage New Town Development Corporation. The main points of the bill are

- a. the establishment of a "Stevenage Development Authority", a majority of whose members would be appointed by the Borough Council;
- b. the transfer to this new body of all of the assets of the Development Corporation, at market value;
- c. the transfer to the new body of all assets sold by the Development Corporation since 19 October 1979 without compensation other than the repayment by the Development Corporation of the money which they received;
- d. the borrowing by the new body (if necessary on the credit of the Borough Council) of the money needed to pay the market value of assets transferred from the Development Corporation.

The purpose of the Bill is thus to prevent the sale to the private sector of the assets of Stevenage New Town Development Corporation, and to bring them under the control of the Borough Council. The proposed recovery of property sold by the Development Corporation is obviously also intended to disrupt the programme of sales of new town assets, in which Stevenage plays an important role.

My Secretary of State regards these proposals as totally unacceptable. Since the principle of the Bill is so much at variance with Government policy for selling new town assets to the private sector, and, in due course bringing to an end the various new town corporations, he considers that steps should be taken to ensure through a friendly backbencher that the Private Bill does not receive a second reading. Since the Opposition spokesman on the Environment, Mr Hattersley, has indicated his support for the Bill, it may be necessary to ask the Whip to be used to ensure this.

X

More immediately, however, my Secretary of State believes that it is necessary to make clear that the Government is opposed to the proposals contained in the Bill and will take such steps as are open to it at all stages to ensure its defeat. This is because the existence of the Bill ~~without~~ a clear indication of the Government's attitude may well reduce the interest of the property market in Stevenage new town property. Since sales of this property are an important part of the programme for the disposals of new town assets in the current year, to let the matter drag on until the eventual second reading debate may put these sales at an unnecessary risk.

Mr Finsberg is due to see a deputation from Stevenage, led by the local Conservative MP, Mr Bowen Wells on 5 December. We should like to make an announcement of the Government's attitude following the meeting.

I am sending copies of this letter to Alistair Pirie (Chief Secretary's office), ~~George Raison~~ (Scottish Office), George Craig (Welsh Office), Ian Ellison (Industry) and Murdo Maclean (Chief Whip's Office).

for an
Dial

D A EDMONDS
Private Secretary

Nick Sanders Esq
10 Downing Street



-4 DEC 1973

COMMERCIAL



10 DOWNING STREET

From the Private Secretary

26 November 1979

Disposal of Surplus NHS Land and Property

The Prime Minister has seen your letter to me of 20 November. She is very pleased that there has been some progress on this front.

N. J. SANDERS

[Handwritten flourish]

Don Brereton, Esq.,
Department of Health and Social Security.

PRIME MINISTER



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

A step-hedged about
with qualifications -
in the right direction

Good - at least MS

They tried and

action not

20/11

Woolf done 20 November 1979

Nick Sanders Esq
Private Secretary
10 Downing Street
London SW1

Dear Nick

DISPOSAL OF SURPLUS NHS LAND AND PROPERTY

You asked me to follow up the Prime Minister's questions during her recent visit to this Department about what could be done to help ensure that local hospitals disposing of land or property benefit directly from the proceeds. The current advice to health authorities is contained in a publication called the "NHS Handbook on Land Transactions".

The Secretary of State has now agreed amendments to this handbook which provide for the hospital or other institution to benefit in whole or in part from the proceeds; a copy of the relevant paragraphs to the handbook is attached.

This change will be promulgated by means of a circular to be distributed early in the New Year not only to Regional and Area Health Authorities, but also the District Management Teams that are concerned in the running of the local hospitals. My Secretary of State will seek opportunities to refer to this in speeches and articles. He hopes, with the Prime Minister, that the prospect of actually benefitting from releasing land and property will stimulate local hospitals to re-evaluate their real estate holdings and to realise those that are surplus to their requirements.

Yours ever

D BRERETON
Private Secretary

Enc.

cc Vint to Dept - Am-
Pt 2.

2.3.3 Use of Receipts from Land Sales - Local Interests

Except as mentioned in paragraph 2.3.1 [any special arrangements in particular circumstances] the region will retain the proceeds of sale. The RHA should normally arrange for the hospital or other institution whose land or property is being disposed of to benefit in whole or in part from such proceeds in order to promote and sustain local interest in a continuing review of land holdings and property surplus to requirements. In arranging the disposal of proceeds in this way account will need to be taken of benefits a disposing body may already have received, eg. where disposal is possible because new facilities have been provided. Where it is not practicable or equitable to arrange for the proceeds of disposal to be devoted wholly or partly to the hospital or other institution concerned, the possibility of providing some benefit to the district or area should be considered.

2.3.4 Use of Receipts from Land Sales - Hospitals for the Mentally Ill

The same general principles as in paragraph 2.3.3 should apply in disposing of land and property at hospitals for the mentally ill and mentally handicapped, but in circumstances where receipts from sales cannot be wholly or partly devoted to the disposing hospital, the RHA should ensure that, unless there are exceptional reasons, such receipts should be used specifically to develop services for the mentally ill and mentally handicapped. This might be through the improvement of health services - for example, in the provision where possible of a psychiatric department on a DGH site - or the receipts might be used, through the joint financing arrangements for the development of local authority personal social services in the community, such as hostels for the mentally ill or mentally handicapped.

this might
be very
useful
MS

NOV 1979

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Treasury Chambers, Parliament Street, SW1P 3AG

6 November 1979

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

David Howell

R 6/4

Michael Heseltine sent me a copy of his letter to you of 22 October about the disposal of the NCB's interest in Sankey and the Scottish Brick Corporation Ltd.

You will no doubt remember that we had some correspondence in September on this subject when Hamish Gray told me in his letter of 5 September that Sankey was only one of a number of NCB subsidiary companies whose future needed to be considered in the context of Government policy towards, and relations with, the coal industry generally. Ministers have now agreed the financial strategy for the industry for the next 5 years and the way now looks to be open to consider which of the NCB subsidiary companies, like Sankey and the Scottish Brick Corporation Ltd, can be disposed of. I recognise that the sums involved are only small in terms of PSBR arithmetic, perhaps some £15-£20m at a rough first estimate. But this would nevertheless be a helpful contribution towards next year's disposal target of £500m and I therefore hope that we can make rapid progress. Indeed, I think it important to be clear of the legal position very soon since your forthcoming Coal Bill would provide the ideal opportunity for taking any necessary powers.

I should be grateful for your views.

I am sending copies of this letter to Keith Joseph, George Younger and to the Prime Minister's Private Secretary.

Nigel Lawson

NIGEL LAWSON

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10 DOWNING STREET

From the Private Secretary

25 October 1979

Suez Finance Company

The Prime Minister has read the Chancellor's minute of 24 October, and has approved his proposals for selling HMG's shares in the Suez Finance Company to the Suez Finance Company's banking subsidiary, Banque de l'Indochine et de Suez.

I am sending copies of this letter to the Foreign and Commonwealth Secretary, the Governor of the Bank of England and Sir John Hunt.

J. P. LANKESTER

CONFIDENTIAL

A.M.W. Battishill, Esq.,
H.M. Treasury

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

SUEZ FINANCE COMPANY

I minuted you on 24th September about the possibility of us disposing of HMG's shares in the Suez Finance Company at a small premium over the market price. This particular proposal no longer looks possible because the Chairman of the company is reluctant to see our shares acquired by any single buyer and he can effectively obstruct this, if he so wishes. He has however put to us an alternative proposal which I think we should accept. It is that we should sell the shares to the Suez Finance Company's banking subsidiary (Banque de l'Indochine et de Suez) at a price related to the market price. The present market price is Francs 271. Under the formula we would receive Francs 275 if the price were between Francs 265 and 275; we would receive the market price if the price were between Francs 275 and 285; and we would receive Francs 285 if the market price were between Francs 285 and 295. Outside this price range we would have to re-negotiate the formula. In addition we would be obliged to pay a commission of 1½ per cent to the Banque de l'Indochine as an underwriting commission for the risk they will take by purchasing the shares for subsequent placing in the market.

2. Under the formula the shares would realise around £20 million at the present price. A sale now would contribute modestly towards the Government's programme of asset disposals and would be a further indication of our determination to press ahead with this policy. I see no prospect of securing a better offer and so rejection of the one proposed would effectively rule out disposal for the time being.

13. I therefore

CONFIDENTIAL

Prime Minister

This seems the best option available.

Agree?

Yes

T2

24/10

CONFIDENTIAL



3. I therefore recommend that we should accept this proposal and would be glad if you would confirm that you have no objection to our so doing.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Governor of the Bank of England and Sir John Hunt.

(G.H.)

24 October, 1979

CONFIDENTIAL

24 OCT 1979



CONDINGTON



Econ A7

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/14699/79

Your ref:

Mr. Patterson
2. 11. 79

R

23/10

22 OCT 1979

See David

11 Garden Rooms

I have seen the correspondence between the Prime Minister's Private Secretary and Mr E T Waters about the NCB interest in Sankey.

I would certainly welcome its disposal, and in fact the Builders Merchants Federation have already raised this with John Stanley. The builders merchants sector is, of course, quite outside the NCB's statutory responsibilities and the shareholding is regarded with concern by the construction industry. Furthermore I understand that Sankeys are acquiring another builders merchant - North Eastern Distributors. We shall certainly be pressed to sell the Sankey shareholding, and as I understand that the company is operated quite independently of NCB, there seems every reason to let it go.

I appreciate that, under the Articles of Association, the NCB share must be offered first to St Regis, the other shareholder, and that there is therefore a risk that the company would become wholly owned by an American company. But Sankey have only a little over 5% of the total market, in which there are over 900 firms. This therefore does not seem to be an overriding objection.

I believe that the NCB also has a 40% interest in the Scottish Brick Corporation Limited - a company registered in Scotland. You may feel that the same arguments apply to it as well.

I am sending copies of this letter to Geoffrey Howe Keith Joseph, George Younger and Nigel Lawson, and to the Prime Minister's Private Secretary.

Yes
mm
Michael Heseltine

MICHAEL HESELTINE

23 OCT 1979





Econ Pol
H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

CF. P.S.
16 October 1979
R

DISPOSAL OF PUBLIC SECTOR ASSETS IN 1979-80

The Chancellor of the Exchequer announced in his Budget Statement on 12 June that the Government intended to reduce the PSBR in the current financial year partly through the disposal of public sector assets to the value of some £1bn. The Government has now determined the broad composition of these disposals, some of which have already been announced. The Secretary of State for Energy announced on 14 September that BNOC is negotiating to receive advance oil payments for some of the oil that it plans to deliver in 1980-81. It is expected that these will raise £400m to £500m. The remaining sales, together with estimates of their proceeds, are:

Approximately 5 per cent of BP shares	-	£200m to £300m
New town assets and other public sector land	-	£100m to £150m
Other assets, including assets held by NEB	-	£100m to £150m

The BP shares will come from the Government's own shareholding. This will reduce the total of the Government and Bank of England holdings, taken together, to some 46 per cent.

Arrangements are being made for these disposals to be completed during the course of the present financial year. Further details will be announced in due course.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233 3415

152/79

Confidential



Treasury Chambers, Parliament Street, SW1P 3AG

11 October 1979

The Rt Hon George Younger TD MP
Scottish Office
New St Andrews House
St James Centre
EDINBURGH
EH1 3SX

12/11/79

Dear Secretary of State,

DISPOSAL OF NEW TOWN ASSETS

Thank you for your letter of 28 September about the disposal of new town assets in Scotland. I am grateful for the contribution to the disposals targets.

The figure of £1 million will be logged up against our 1979-80 target. I accept, for the reasons you give in your letter, that it would be unrealistic to expect more in the current year. However, now that the programme is under way I would hope we can look to the Scottish new towns for a significant contribution towards our agreed £500 million target for 1980-81. I assume we can count on the balance of the £5 million from the assets being placed on the market this year but that in addition, if this is the first year of a continuing programme, there will also be proceeds from whatever disposals it may prove possible to initiate next year. The composition of the £500 million target is still far from clear and there may have to be further discussion in E(DL) at which we shall need to resolve the precise figuring.

I am copying this letter as before.

Yours sincerely,

P. Diggle (private secretary)

ff NIGEL LAWSON

(approved by the Financial Secretary and signed in his absence).



21 OCT 1979

CONFIDENTIAL



RE VS
Econ RE

10 DOWNING STREET

From the Private Secretary

1 October 1979

Suez Finance Company


The Prime Minister has considered the Chancellor of the Exchequer's minute of 24 September, and agrees with his proposals for selling off the Government's equity holding in the Suez Finance Company.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Governor of the Bank of England and Sir John Hunt.

T. P. LANKESTER

M.A. Hall, Esq.,
H.M. Treasury.

CONFIDENTIAL



With the Compliments

of the

Secretary of State

*Scottish Office,
New St. Andrew's House,
Edinburgh EH1 3SX.*



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Nigel Lawson Esq MP
Financial Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

R 7/10

28 September 1979

DISPOSAL OF NEW TOWN ASSETS

You wrote to me on 15 August asking what contribution the five Scottish New Towns might make in 1979/80 to the programme for the disposal of public sector assets. I am assuming that this request relates to industrial and commercial holdings, since account has already been taken of the prospects in the housing field, and that you are considering disposals additional to those for which provision is already made in the Corporations' estimates.

I have now had discussions with the five Scottish New Town Development Corporations, as a result of which I propose to ask them to aim to place on the market this year assets totalling £5m, in addition to sales already planned: I would expect cash received within the current financial year to be over £1m.

I am satisfied that, given the limited time available for additional realisations within the current year, it would not be reasonable to expect the Corporations to achieve a higher figure than this without severe financial penalties in the way of forced sales (there is no pent-up backlog of demand in Scotland, where sales were not so severely restricted under the previous Administration as in England and Wales). In any comparison of these figures with those set by Michael Heseltine for the English New Towns, it is important to bear in mind the very great difference between the position north and south of the border. In England, a programme of dissolution for both Mark I and Mark II new towns is now well under way and the Commission for the New Towns, established as long ago as 1959, and which is to contribute some £40m of the £100m, has a completed and mature range of commercial and industrial assets to offer. A further £44m is, I understand,

to be contributed by the Mark II towns of Stevenage, Bracknell and Harlow. In Scotland, we are nowhere near this stage of development, with only East Kilbride (expected to reach its target population in the late 1980s) being within sight of the end of its rapid growth period, and marketing will in any event be less easy than in the relatively prosperous South East of England. What I have offered is, in my view, an ambitious objective, more than proportionate to the contribution expected from New Towns in England which are in full process of development.

It is my intention to maintain pressure upon the New Town Corporations to achieve a maximum disposals programme. The Corporations are already aware of the Government's requirements in this respect and are going forward vigorously with their preparations for sales.

I am copying this letter to the recipients of yours.

George Younger

- 1 OCT 1979

12 1 2 3 4 5 6 7 8 9 0



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister

Agree the Chancellor's
proposal?

(Fco. are
content)

PRIME MINISTER

Yes sir

R

28/9

SUEZ FINANCE COMPANY

As you know, one of the items on our list of assets to be disposed of in the current financial year is the Suez Finance Company. The Bank of England believe that they may be able to find a buyer who is prepared to pay a satisfactory price.

2. The Suez Finance Company has its origins in the former Suez Canal Company in which the British Government acquired a 45 per cent stake in 1867. The assets received as compensation after the canal was nationalised were used to create a holding company with a portfolio of stock market and direct investment, particularly in property and banking. The Government owns just under 8 per cent of the company's total equity. The other leading shareholders are the St Gobain Pont-à-Mousson Group and the Victoire Insurance Group, both leading French companies. It is clearly inappropriate that we should retain this investment.

3. The Bank of England have taken soundings from a number of merchant banks about the possibility of a satisfactory sale. It has been necessary to keep these enquiries confidential because, if they became public knowledge, the share price would drop and thus also the price that we would obtain for our holding of stock. A further reason is that the company is particularly sensitive about the way in which the shares are disposed of and the French Government also takes a close interest in its affairs.

/ 4. It



4. It now appears possible that a French Company (or group of companies) would pay us a small premium over the share price for our stock. This is an attractive offer. All the UK offers we have received would require us to accept a discount below the share price. This difference is not surprising because ownership of the shares of this company is likely to be particularly attractive to French buyers.

5. At present market prices and exchange rates the Government's holding is worth about £20 million but the amount which we would receive would of course depend on the precise terms of the sale and movements in the exchange rate and market prices in the meantime.

6. The French Government have been informed of our intention to sell our holding and have raised no objections.

7. If this attractive prospect is confirmed and the buyer proves to be acceptable to the company, we should like to go ahead and clinch the sale. I should therefore be glad if you would confirm that you have no objection to our doing so.

8. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Governor of the Bank of England and Sir John Hunt.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

24 September 1979



24 SEP 1979

CONFIDENTIAL

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Econ A.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-2123301
Switchboard 01-2127676

Secretary of State for Industry

13 September 1979

CONFIDENTIAL

Nigel Lawson Esq MP
Financial Secretary
Treasury
Parliament Street
London SW1

R 4/9

Dear Nigel.

Thank you for your letter of 30 July which you copied to members of E and E(DL) among others. You asked what additional candidates for disposal in 1979/80 might be found.

We have had a close look at the possibilities but I have to let you know that no major new candidates have emerged. I think it might help if I give you the present position by public body.

BSC have agreed to do their best to dispose of assets which would bring in receipts of £30 million by 31 March 1980. This would include £3 million receipts from disposals of land. BSC are proposing to dispose of a further £7 million of land during 1980/81. Many of the BSC sites are encumbered with old buildings which need to be cleared or refurbished if BSC are to get the best value: this inevitably takes time. While we have strongly encouraged BSC to see what more can be done, I do not think it practical to require them to dispose of more than the £30 million total by 31 March 1980, given the difficulties of making disposals at a proper price and getting money in by the due date.

As to the Post Office, we have explored with them the possibility of disposals in 1979/80 in the context of their cash limit difficulties and I am afraid that what has emerged will all be needed to help with that situation. The Post Office have told us that they have very little land which is surplus to their requirements (what there was was shaken out in the round of investment cuts in 1975) but I know that they are looking very hard for candidates. More fruitfully, the Chairman has been looking at the possibility of the sale and leaseback of land and buildings - the kind of arrangement which I mentioned in E Committee in July. The proposals which he has in mind could raise more than £30m in 1979/80. We will obviously need to look at this carefully and consider the public expenditure implications of such a move.

/The other.....



CONFIDENTIAL

2.

The other possibilities which we have explored with the Corporation are Prestel and Post Office factories, but I am afraid that at the moment neither is a serious candidate. In either case a proposal to sell would add to the problems we are facing with the Post Office unions over plans to split the Post Office and to relax the telecommunications monopoly. Apart from this, the disposal of Prestel has not turned out to be a practical proposition at this stage in its development. It would be difficult to put a market value on it while it is still losing money. One reason why it is a worthwhile investment for the Post Office is that the Corporation would benefit from the additional traffic generated, whereas another owner would not have that advantage. Prestel is closely integrated with the rest of the Telecommunications management structure, especially in the regions, and it would take some time to collect the know-how together into a marketable entity: this could dissipate the 18 months' to 2 years' world lead which the system has at the moment. Finally, any investment savings from selling off Prestel would be limited by the fact that the Post Office would still have to finance the associated expansion of the network.

British Aerospace offers ^{no} prospect of selling assets or land other than through the planned programme of disposal of shares. BAe are satisfied that disposals could only be made at the cost of interfering with their business adversely. We would not wish this to happen, not least because it would affect the proceeds from sale of shares in the business in 1980/81.

Cable and Wireless on our present advice will afford no opportunity for disposal before 1980/81, and then probably only in Hong Kong.

The NEB does not own any land or buildings: its assets are virtually all in shares and loans. As you know, I have asked the NEB to realise £100m from its holdings in this financial year. I do not think this will be easy for them to achieve, and although the possibility of their doing a little better cannot be ruled out it would be prudent to assume that £100m is the most we can reasonably expect, even if the market remains favourable.

Finally, as regards British Shipbuilders, they are considering a number of possible disposals. These include the facilities at Burntisland and at Greenwell and, probably most promising of all, the Falmouth facilities whose net book value is £1.3 million and which might command a higher price. Other possibilities include the two small warshipbuilders Hall Russell and Brooke Marine. The only offer that has so far been received is for Brooke Marine and has been made by its former owner. These and other disposals of assets are very speculative. However, progress is being made on the refinancing of loans to ship-owners under section 10 of the Industry Act 1972: we hope that £15 million of loans will be repaid early.

I am copying this letter to the recipients of yours.

Erwin Kent

14 SEP 1979

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

Economic Policy
R 175
10 September 1979

Dear Nigel,

DISPOSAL OF LAND AND BUILDINGS IN THE PUBLIC SECTOR

Thank you for letting me have a copy of your letter of 30 July to Keith Joseph on this matter.

I do not think we shall be able to identify and release more NHS land for disposal during the current financial year. We already have a substantial land disposal programme in being (some £4½ million has been received from land sales in the period from 1 April to 31 July this year). But the rate at which land can be released and added to the disposal programme is dependent upon the rate of progress with new NHS development, which enables old hospitals or other properties to be closed, and on changes in operational requirements. In neither case can we look for any sudden change.

Even if it were possible to release additional NHS land for disposal this year, it would not really help in the way you obviously have in mind. Under present arrangements (agreed by the Treasury) probable receipts from land disposals, assessed well in advance, are included in the Estimates and, when realised, are retained by the health authorities to finance further capital spending in the year of receipt.

These amounts are very small in relation to the NHS capital programme as a whole, but they provide an important incentive to the health authorities to release land. I think that the need to give encouragement by this means to the health authorities to rationalise their land holdings is fully recognised, and I am assuming you are not seeking to divert these funds subject as they are to the Treasury's oversight, away from the health authorities.

I am sending copies of this letter to the recipients of yours.

You are
Patrice



11 SEP 1979



VMS
DEPARTMENT OF ENERGY
Thames House South
Millbank
London SW1P 4QJ

Tel: 01-211 3000
01-211 3290

Mr Mike Pattison
(No 10)

With the Compliments of
the Private Secretary to the
Minister of State for Energy

Gordon Lusk

c. Mr Peter Mason
(NS/ SofS Industry)

CONFIDENTIAL



THE MINISTER OF STATE
Hamish Gray Esq MP

Econ Policy
DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

Fed 2621
Nigel Lawson Esq MP
Financial Secretary to the
Treasury
1 Parliament Street
London SW1P 3HE

5 September 1979

New Financial Secretary,

NCB INTEREST IN J H SANKEY AND SON LIMITED

David Howell has seen your Private Secretary's letter of 28 August on this subject. He has asked me to write to you. *Requested*

Your presumption that David took account of assets like Sankey in writing his letter of 4 July is correct. Sankey is one of a number of NCB subsidiary companies, whose future needs to be considered in the context of Government policy towards, and relations with, the coal industry generally. The financial implications, in which you have a particular interest, are only one of the considerations involved. David will be bringing forward proposals for appropriate further disposals to his colleagues in E(DL) at the time and in the way he judges best, taking account of any decisions on timetables which colleagues have agreed.

Incidentally I was interested to see that, at the meeting with the nationalised industry chairmen on 23 July, the Chancellor is recorded as having told the chairmen that the criterion in looking at proposals by the industries for joint ventures would be the contribution they might make to commercial vitality. I am sure you will agree that this criterion can be as relevant to the disposal of existing subsidiaries as to the acquisition of new ones.

I am having this letter copied to No 10 and to the Department of Industry

Yours sincerely,

MA Stewart

(Approved by the Minister of State and signed in his absence)

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILBANK
LONDON (W1P 1BT)

6-SEP-1979

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2 September 1979

Home Financial Services

The Director of the Bank of England

Dear Sir, I refer to your letter of 28 August 1979 regarding the proposed merger of Home Financial Services with the Bank of England.

The Bank of England has considered the proposal and is pleased to advise you that it has no objection to the proposed merger. The Bank of England is a public body and its activities are subject to the provisions of the Public Finance and Accountability Act 1977. The proposed merger is a financial transaction and is therefore subject to the provisions of the Companies Act 1967. The Bank of England is a public body and its activities are subject to the provisions of the Public Finance and Accountability Act 1977. The proposed merger is a financial transaction and is therefore subject to the provisions of the Companies Act 1967.

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The proposed merger is a financial transaction and is therefore subject to the provisions of the Companies Act 1967. The Bank of England is a public body and its activities are subject to the provisions of the Public Finance and Accountability Act 1977. The proposed merger is a financial transaction and is therefore subject to the provisions of the Companies Act 1967.

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Home Financial Services

Home Financial Services

Yours faithfully,
The Director of the Bank of England



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

3 PPs Econ
PL

R 519

Nigel Lawson, Esq MP
Financial Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

4 September 1979

De Nigel

Thank you for your letter of 17 August. I am also taking this opportunity to reply to your letter of 30 July to Keith Joseph asking colleagues to identify any further prospects for disposal during the current financial year.

If I can take BGC first, they are of course already making very large contributions to the Exchequer for 1979/80 and 1980/81. I hope they will be able to add significantly to this in the next year or two through disposals. There are a wide range of possibilities which I shall be discussing at an early stage with Sir Denis Rooke and the Board. Wytch Farm is only one of these and there are in fact some serious difficulties about valuation which may make an early sale for a realistic price unlikely. Thus, so far as legislation is concerned, we do not yet know what specific powers will be needed. The only alternative, if we were to use the Industry Bill, would be to include a very broad general enabling provision. To imply at this stage, by taking such a power, that we envisaged the wholesale disposal of the Corporation would attract questions and criticism to which it would be very difficult to reply. I shall consider in the light of my discussions with BGC whether the Petroleum and Submarine Pipelines (Amendment) Bill, the timing of which is still uncertain, could prove to be an appropriate vehicle for legislation on BGC disposals.

I have made some general points on our approach to disposals, which are particularly relevant to BGC, in a letter which I have today sent to the Chancellor.

Your 30 July letter also mentioned disposals of surplus land and property. It may be helpful to record the current position as far as the main land holding energy industries are concerned. The NCB has a firm policy of disposing of all land which is not positively identified as land required for future operational purposes; in the 10 years since 1969, gross proceeds from sales of land by the Board totalled almost £40 million, and a very rough estimate of possible sales for 1979/80 would be £2 - £3 million. In addition, the Board are firmly committed to the earliest practicable disposal of their substantial housing stock as economic and industrial relations constraints will allow; since 1969, they have raised some £70 million (gross) for sales of houses, and for the future they are aiming at a total rate of disposal of some 10,000 houses each year. In the electricity supply industry surplus land and property arise from time to time and are sold off in the normal course of events. The BGC pursue a similar policy; they estimate that between 50 and 100 acres will be disposed of in the current year (although I must point out that with the development of, for example, the Morecambe Bay gas terminal, BGC are currently a net acquirer of land for operational purposes). I shall be stressing to the Chairmen the importance which the Government attaches to the speedy and efficient disposal of surplus land.



Copies of this letter go to recipients of both of yours.

D A R HOWELL

Wm
David



Copies of this letter to be retained at both of your.

1951

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Handwritten signature or initials in blue ink.

Handwritten number '3' in blue ink.



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

R 515

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

4 September 1979

Dear Sir

DISPOSAL OF PUBLIC SECTOR ASSETS 6

Since our E(DL) discussion on 24 July, I have been reflecting on our general approach to nationalised industry disposals. It is clearly of great importance that the policy should develop in the most effective manner possible.

We are all agreed that it is a major aim of Government strategy to widen the ownership of state-owned industries and assets and thus entrench popular pressures against collectivism. We fought and argued for this during our campaign, and the theme was made a centrepiece of party speeches. But to achieve this, at least in the industries with which I am concerned, will require very careful timing and handling.

I recognise that piecemeal disposals under time pressure in 1979/80 are necessary for short-term PSBR and tax strategy reasons, but we should not under-rate the dangers inherent in the poor business practice of selling assets to finance current requirements. The major risks are that sales will not result in stable arrangements because of non-co-operation between public and private participants; and that of selling under pressure in circumstances, or at a time, in which the assets do not realise their full potential value. This could lead to damaging accusations of bad business practice, benefitting the investor at the expense of the taxpayer. It could discredit and undermine the Government's whole approach to the unwinding of the public sector.

In view of these risks - and, on the other hand, the great possibilities of a deliberate and considered approach - I think it important that we do not extend into 1980/81 and beyond the somewhat headlong and timetabled approach to sales which was forced on us this year.

I believe that the proper decisions on method and timing can only be taken after full consultation with the Chairman and Board of the industry concerned. Annual budgetary constraints should not be such as to exercise absolute control over the pace and shape of individual disposals. This feeling was mooted, you may recall, towards the close of our somewhat rushed meeting in E(DL) on 24 July. I am convinced that this approach will produce long-term results which will be better in every respect.

As an illustration, I am concerned, in my own field, not to jeopardise the prospects of progress on this front in the Gas Industry. I hope shortly to discuss with the Chairman and Board a wide range of possible options for the introduction of private capital. Although I will naturally press ahead with this as quickly as possible, I very much hope that I will be able to hold these discussions and to take the resultant decisions without the over-riding and short-term pressures to which we were subject



on TRC and BNOG. In the meantime, of course, BGC will already be making a very large contribution to the Exchequer in 1980/81. I am sure you will share my desire, in this of all cases, not to jeopardise long-term policy objectives for short-term revenue gains.

I am copying this to our E Committee colleagues and to Sir John Hunt.

Yours
David

D A R Howell



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4 September, 1979

R
25/9

Dear Minister

You wrote to me on 28th August with a draft consultation paper about your proposals for disposal of public sector land. Although there has not yet been time for detailed comments from all colleagues, I think that we should have a little more time to reflect on the presentational aspects of the proposals, and that an announcement on Thursday of this week may be a little premature.

I have it in mind that E(DL) were anxious about the potential conflict between these measures and our policies of increasing autonomy for local authorities and for nationalised industry managements. They therefore favoured an experimental use of the register in the first instance. If the proposals are not to arouse outright opposition from all the bodies concerned - and so evoke a bad Press - I think that a clearer exposition of the reasons for the proposals, and of our intentions for an experiment are needed. Might I therefore suggest that you should circulate a draft of the cover note that you would use with the document, and of the question and answer briefing for your press conference, so that colleagues (including territorial Secretaries of State) can see how it impinges on their own responsibilities.

I will write again about policy approval for legal drafting when I have seen the detailed comments from members of E(DL).

I am copying this to the Prime Minister, to Members of E(DL), to the Secretaries of State for Wales and Scotland, to the Chancellor of the Duchy of Lancaster, the Paymaster General, the Minister of Transport, and Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

The Rt. Hon. Michael Heseltine, M.P.

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- 4 SEP 1979



✓MAP

Treasury Chambers, Parliament Street, SW1P 3AG

28 August 1979

PS/Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

Dear private secretary,

The Financial Secretary has read with interest the letter of 15 August from Mike Pattison at No 10 recording the Prime Minister's surprise that the NCB's interest in Sankey has not been considered in Whitehall discussions about the scope for sale of assets.

The Financial Secretary recalls that your Secretary of State said in his letter of 4 July that the potentially saleable assets of industries other than BNOG and BGC were for the most part much less valuable and those whose sale is likely in the event to prove practicable and desirable would probably not be on a scale significant to affect the Treasury's overall Budget judgement. Presumably your Secretary of State had assets like Sankey in mind when he made this statement.

The Financial Secretary accepts that the sale of Sankey and other small companies would not affect Budget judgements, but he does not think that this is a sufficient reason to hold up further consideration of the disposal of such assets. Such sales could provide a useful contribution to meeting the Government's wider political objective of replacing, wherever possible, state enterprise with private enterprise. The Financial Secretary would therefore like to have your Secretary of State's views on the sale of Sankey. If legislation is required, appropriate provisions could presumably be included in the forthcoming coal legislation for which there is a place already in the programme.

The NCB, and indeed the other nationalised energy industries, may have other companies and activities which are candidates for disposal and the Financial Secretary hopes that your Secretary of State is giving consideration to the possibilities here. He would like to know the outcome in due course.

I am sending a copy of this letter to Mike Pattison (No 10) and to Peter Mason (Department of Industry).

Yours sincerely,

P Diggle

P C DIGGLE

29 AUG 1979



26



cc PS/Mr King
 PS/Mr Fox
 PS/Bern See
 PS/Mr Wardale
 Mr Owen
 Mr Pavey
 Mr Newey
 Mr Alderson
 Mr Sample
 Mr Gunn
 Mr Ennals
 Mr McQuail
 Mr Chipperfield
 Mr Green

Mr Rogers
 Mr Benson
 Mr Norton
 Mr Doyle
 Mr Howes
 Mr Hedley-Bent
 Miss Brett Holt
 Mr Keenleiff-Davies
 Mr J.S. Clarke
 Mr J.F. Smith
 Mr Palca

2 MARSHAM STREET
 LONDON SW1P 3EP

My ref:

Your ref:

28 August 1979

Dear Chancellor

I am writing to my colleagues on E(DL) on a matter of some urgency.

At the fifth meeting of E(DL) on 26 July I was invited to bring back to my colleagues specific proposals for the disposal of surplus land and buildings in the public sector after holding external consultations

I am now on the point of sending a consultation document to the local authority associations and certain other bodies and I am inviting my colleagues with responsibilities for nationalised industries to approach them for their reactions to it as well. I think that the Sub-Committee's remit that the terms of the approach to nationalised industries should be agreed by the Ministers responsible for sponsoring Departments is best satisfied if each Minister carries out his consultation in the way that seems to him most suitable. I shall be announcing on 6 September that external consultations will now be taking place, and perhaps my colleagues with nationalised industries will take that as the starting point for consultations with them.

These arrangements do however involve a major problem of timing. Authority for Parliamentary Counsel to draft provisions for introducing land registers etc requires policy approval for the proposals. If in fulfilment of E(DL)'s remit to me I were to invite policy approval after holding the external consultations there would be no time for framing considered provisions for the Local Government, Planning and Land Bill.

Accordingly, in order to get on with drafting I should be grateful if my colleagues in E(DL) would agree to give their policy approval on the strength of the enclosed consultation document. All interested Departments have considered an earlier version already at official level, and the document takes account of certain comments received from them.

I have thought carefully about manpower and cost implications of the proposals in the consultation document. Because the scheme at the outset will be limited by the size of site to be prescribed and by the small number of authorities to which it will apply, I do not foresee major problems.

I should be greatly obliged if my colleagues would respond urgently and in any event by 31 August.

I am copying this letter to all members of E(DL), to the Lord President, the Chancellor of the Duchy of Lancaster and the Minister of Transport.

Yours sincerely

 for MICHAEL HESELTINE

DISPOSAL OF SURPLUS LAND AND BUILDINGS IN THE PUBLIC SECTOR
PROPOSED LEGISLATION PROVISIONS

Objective

1. The objective of the legislative proposals for securing the disposal of surplus land and buildings in the public sector (referred to in the rest of this paper for the sake of brevity simply as land) is to make the land more readily available to those likely to develop it or use it better.

Main legislative measures

2. The scheme to be provided for by legislation is -
- a. publicly owned land which is unused or underused would be required to be entered on local registers open to public inspection. The registers would include ^{brief} particulars of why the land was unused or underused and would indicate whether or not it was for disposal;
 - b. a power for the Secretary of State (for the Environment or for Wales) to direct ^{registers} that public land not entered in a register which appeared to him to be unused or underused was to be so entered;
 - c. a power for the territorial Secretary of State to direct that land entered in a register or directed to be so entered be offered for sale, subject to consultation with the owners of interests and to certain safeguards;
 - d. a power for public bodies and members of ^{allian} recognised professional institutions to challenge the continued present public ownership of a specific site on the grounds that it was unused or underused, with adjudication by the territorial Secretary of State.
3. The Secretary of State's intention is to begin by operating the scheme experimentally ^{in the areas of} through selected authorities and by providing for the minimum size of land to be registered to be higher than it will be eventually.

8. It would be a duty on all bodies comprised in paragraph 7 to send prescribed particulars of their registrable unused or underused land in designated districts or boroughs to the Registrar by a certain date and related to an earlier date (eg a fortnight previously), both dates to be prescribed by the Secretary of State. For example, the data could relate to 1 January each year and would be required to reach the Registrar by 15 January. Government Departments would be expected to send particulars on a voluntary basis.

9. ~~The form and content of the register, including the particulars to be entered in it, would be prescribed by the Secretary of State.~~ The particulars ^{to be entered} would not be elaborate. Entries would be restricted ^{the form of entries would be prescribed} to sites over a certain size. They would list the interest-holders, the nature and size of the holdings, any permitted uses and they would give the reasons why the land was unused or underused and whether or not the land was for disposal. Location maps would probably be required.

10. The method of defining unused and underused land has still to be decided; whichever course is followed the object will be to reflect as far as possible what the commonly regarded meanings of the words are. Depending on the definition adopted provision would be made to exclude from the scheme certain types of land, eg public open space, commons, moorland, forestry as necessary.

11. ~~The registers would be kept in a prescribed standard form.~~ ^{changes} Additions would be the subject of consultation with those affected. ^{the} Copies of registers would be kept in DOE Regional Offices. ~~and copies~~

12. ~~Registers would be open to public inspection at the principal office of the council at all reasonable times.~~ ^{district} ^{as to be done} ^{and copies} Copies of extracts would be supplied on payment of a fee. ^{where it would be open to public inspection at all reasonable times.}

13. There would be power for the Secretary of State to require the authorities ~~listed above~~ ^{agricultural} to keep such accounts and records and to prepare and submit to him such statements of account relating to the holding and disposal of unused or underused land as he may with the approval of the Treasury direct.

B. Power of Secretary of State to direct that unused or underused public land be registered. ^{register} ~~land~~ _{not in a register}

14. The power would be exercised by the territorial Secretary of State and would be exercisable if it came to his notice either through a challenge or by some other means that certain public land not in a register appeared to be unused or underused. ~~If the~~ Secretary of State considered that on the face of it that seemed to be the case, he would give the owner an opportunity to explain why the land was not on the register and, if satisfied that the land was registrable, would require particulars of it to be registered.

C. Power of Secretary of State to direct that public land be offered for sale.

15. The power would be exercised by the territorial Secretary. It would take the form of a direction to any of the bodies listed above (including directions in respect of wholly owned subsidiaries to the parent body) to offer their interest in a particular site or sites, as defined in the direction, for sale. The land in question would be either land entered in a register or land directed ^{to be} ~~(under B above)~~ to be entered.

16. The direction would be able to specify the manner of disposal.

17. The power would not normally be exercised without allowing the owner of the interest ^{the opportunity} to establish the planning position.

18. The power would be subject to these provisos -

- a. it would only be exercised after consultation with the owner of the interest
- b. the Secretary of State would have to be satisfied that disposal could be made without undue interference with the operations or business of the owner of the interest, and in particular that the direction would not impair the ability of a statutory body to carry out any of its statutory functions, for which purpose
- c. the Secretary of State would act under a joint arrangement with the Minister responsible for the body or service concerned
- d. the consideration to be accepted for sale to be the standard one, ie the best that can reasonably be obtained.

19. Apart from these provisos it would be necessary for the legislation to ensure that there was no interference with existing property rights, eg those of freeholders where the leasehold interest was publicly owned.

D. The Power of Challenge

20. This would be a power for public bodies and members of *certain* recognised professional institutions to represent to the territorial Secretary of State that the continued present public ownership of a specific site was not justified on the grounds that it was unused or underused. The specific site need not be entered in a register at the material time.

21. If the Secretary of State were satisfied that the representation was justified he may exercise his power of direction under C above (and, if relevant, under B previously) but before doing so -

- a. he would have to observe the provisos listed at paragraph 18a, b and c., and
- b. before reaching a decision whether to uphold or dismiss the representation he would ~~have to~~ afford an opportunity for the person making the representation and owners of interests in the land, or their representatives, to be heard by a person appointed by him.

22. If the Secretary of State were not satisfied that the challenge was justified and rejected it no further challenge would be entertained for 3 years from the date of his decision unless there had been a material change of circumstance.

23. Formal provisions, eg for dealing with land in unknown ownership, would be provided.



Treasury Chambers, Parliament Street, SW1P 3AG

24 August 1979

The Rt Hon Norman Fowler MP
 Minister of Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1

12/31/8

Dear Minister,

ASSET SALES: TRANSPORT CONTRIBUTION

I am responding to your letters of 16 August to me about asset sales and to John Biffen about lease and lease-back arrangements for British Rail property.

I accept, of course, that the NFC sale cannot be hurried. So I welcome your assurance that you are pressing the British Railways Board for progress on the disposal of surplus land. As I understand the position, their cash limit for the current year already presupposed quite significant receipts for this source; and I am sure that, in setting the cash limit for 1980-81, we should make allowances for the largest feasible volume of receipts from asset sales.

Against this background, I was rather surprised by the proposal in your letter to John Biffen that we should assist British Railways to obtain the necessary powers to undertake office developments on their own account via lease and lease-back. If British Rail have these prime sites available, and not required in any way for operational use, should they not rather be sold?

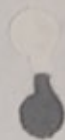
I am copying this letter to members of E, E(DL), and E(EA), the Attorney General, the Lord Advocate and Sir John Hurt.

Yours sincerely,

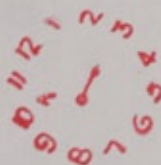
P. Diggle (private secretary)

PP NIGEL LAWSON

(signed in the Financial Secretary's absence with his approval).



29 AUG 1979





MAP

Treasury Chambers, Parliament
Street, SW1P 3AG

Enclosures from the
Financial Secretary

Gm Pl



Treasury Chambers, Parliament Street, SW1P 3AG

22 August 1979

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1

SALE OF BRITISH SUGAR CORPORATION SHARES

I was glad to learn that you share my concern to complete the sale of the shares during the current financial year. I also fully understand your desire to exploit the sale of the shares to the fullest extent in your current discussions with BSC. I hope however that you can press ahead with them urgently so that given the 1979-80 deadline, we shall still retain adequate flexibility over the precise timing of the sale.

Copies of this letter go to the Prime Minister, other members of E(DL), the Attorney General and Sir John Hunt.

NIGEL LAWSON

25 AUG 1979



CONFIDENTIAL ^u



10 DOWNING STREET

From the Private Secretary

22 August 1979

The Prime Minister has seen and noted progress on the sale of new town assets recorded in your Secretary of State's minute of 15 August.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

M. A. PATTISON

A handwritten signature in dark ink, appearing to read 'D Edmonds'.

David Edmonds, Esq.,
Department of the Environment.

CONFIDENTIAL

Econ. Pd.
✓MA

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877



From the Secretary of State

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

20 August 1979

Dear Nigel

You wrote to members of E on 30 July about further candidates for disposal. We have, as you will recall, given up the idea of realising a capital sum by selling the duty-free side of the British Airports Authority business, and none of their land and property is surplus. We are now considering whether private ownership could be introduced into the BAA on similar lines to our intentions for British Airways. Even if this is desirable it obviously cannot be achieved in the sort of time-scale to which you refer. I have no other possible candidates.

I am copying this letter to those who received yours.

Yours ever
John

JOHN NOTT

20 AUG 1973



CONFIDENTIAL

✓ MA



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Nigel Lawson Esq MP
Financial Secretary
Treasury
Parliament Street
LONDON
SW1

16 August 1979

Dear Nigel.

I have seen a copy of your letter of 30 July to members of E and E(DL) asking for further candidates for disposal during 1979/80.

As you know, my main contribution to the disposal programme is the sale of shares in NFC, and there is certainly no prospect of achieving that in the current year. I have looked again at the other possibilities that arise, but as I indicated in my letter to you of 30 July I see no prospect of very early action.

I am pressing the British Railways Board for progress on disposal of surplus land, but am still awaiting their proposals.

In these circumstances I hope you will be content with a nil return from me in response to your letter.

I am copying this letter to the recipients of yours.

Yours *Norman Fowler*

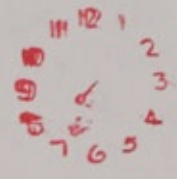
NORMAN FOWLER

CONFIDENTIAL

7/14



17 AUG 1979



Original Correspondence
in G/rooms

DB



10 DOWNING STREET

From the Private Secretary

15 August 1979

Thank you for your letter of 10 August, enclosing a revised draft reply to Mr. E.T. Waters about the NCB interest in Sankey.

The Prime Minister has seen these papers. Whilst she agrees that it would be inappropriate to make any specific comment to Mr. Waters about the status of Sankey in the review of the scope for sale of assets in the public sector, the Prime Minister is a little surprised to find that this particular subsidiary has not been considered in Whitehall discussions about the scope for sale of assets. She has asked me to ensure that the Treasury and the Department of Industry are aware of the NCB interest in Sankey. I am therefore sending copies of this letter to Peter Mason (Department of Industry) and Paula Diggle (Financial Secretary's Office).

M. A. PATTISON

Denis Walker, Esq.,
Department of Energy.

JH



V
M

Treasury Chambers, Parliament Street, SW1P 3AG

15 August 1979

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON
SW1

DISPOSAL OF NEW TOWN ASSETS

As you know, E(DL) Committee has been examining the prospects for the disposal of public sector assets towards a target of £1 bn in 1979-80 and in the course of this exercise Michael Heseltine has initiated a programme of sales of new town assets fixed at £20m initially but subsequently raised by a further £70m to £90m in all. I attach copies of our exchange of correspondence about the £70m.

This is a significant change in new town policy and it would clearly be wrong to limit it only to the English new towns and exclude those in Scotland and Wales. Accordingly I am writing to propose that you, and Nicholas Edwards to whom I am copying this letter, should similarly set targets for your own new towns.

I would hope that a programme can be put in hand to produce receipts in the current year which can be logged up towards the total amount we are seeking. I would therefore be grateful if you could let me have an assessment of the receipts we might expect the policy to produce if possible by the end of the month.

I am copying this letter to the Secretary of State for Wales, and, for information, to the Prime Minister, other members of E(DL) and to Sir John Hunt.

NIGEL LAWSON

15 AUG 1979



15 AUG 1979



PRIME MINISTER

Progress being made

Prime Minister

M.S.
16/8

SALE OF NEW TOWN ASSETS

In your minute of 24 July you asked me to prepare a programme of sales of new town assets (on the assumption that there is legislation) to make the maximum contribution this year and next to cutting back the PSBR.

I agree with you that we need to establish clearly a programme of sales covering this year and 1980/81. I already have the agreement of the new towns to sales in this financial year totalling £140 million and I shall be keeping a close watch on the arrangements to ensure that the receipts are achieved before the end of the financial year.

I have also now obtained from each of the new towns full details and valuations of all their industrial and commercial property and I have commissioned outside advisers - Healey and Baker - who have agreed to report to me by mid-September with an independent assessment of the valuations and with proposals for a strategy for the sale of assets up till the end of 1980/81. This will enable us to decide what scope there is for further sales in this financial year and how much we should plan to raise in the next. (Incidentally, the new towns themselves estimate their total commercial and industrial estate at something under £700 million).

C O N F I D E N T I A L



As you say, we need legislation if we are to be able to realise the full potential of new town assets; I have circulated to colleagues legislative proposals that will enable me to set the pace of the sales, as well as giving the new towns themselves clear powers to sell.

Copies of this minute go to the recipients of yours.

A handwritten signature in blue ink, appearing to be "MH".

MH

1 5 AUG 79

C O N F I D E N T I A L

2F

CONFIDENTIAL



16 JUN 1979
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As you say, we need to... realize the full potential of new... legislative proposals that... the pace of the sales, as well as giving the new... given... to sell.

Course of this... to the... of your.

2002

CONFIDENTIAL

Eca P21



2 MARSHAM STREET
LONDON SW1P 3EB

My Ref: H/PS0/13900/79

10 August 1979

✓MS

FORESTRY COMMISSION

P41

You sent me a copy of your letter of 16 July to Peter Walker. I foresee no difficulty in encompassing the points made in your third paragraph within my wider exercise on surplus land. For the rest, I am in complete agreement with what Nick Edwards says in his reply of 19 July. I am, as you know, concerned with the implications of our forestry policies for local employment in rural areas, for landscape and for recreation. I would certainly not be happy about making radical changes in the tasks and responsibilities of the Forestry Commission, except in the light of a carefully prepared and considered re-assessment of forestry policy - taking account of the factors which are my special concern.

I am copying this letter to Nick Edwards and George Younger, members of E(DL), the Attorney General, the Prime Minister and Sir John Hunt.

yes am

MICHAEL HESELTINE



13 AUG 1979

Ewan Bl
MS



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister
CONFIDENTIAL

Nigel Lawson Esq MP
Financial Secretary to
the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

6 August 1979

SALE OF BRITISH SUGAR CORPORATION SHARES

Thank you for your letter of 16 July ^{P+1} about the sale of BSC shares.

While I agree with you that there is no legal link between the Government shareholding and the powers under Section 23 of the 1956 Sugar Act, I do, as you know, attach considerable importance to retaining our present means of influence over the BSC until we have worked out, in negotiation with them, Tate and Lyle and the ACP suppliers, a viable solution to the current problems of UK sugar policy. The BSC feel strongly that without the shareholding there would be no continued justification for retaining the Section 23 powers. While this may be arguable their very keenness to see the shareholding given up gives me a useful bargaining counter in the current discussions which I should not wish to relinquish before they have been successfully concluded.

However I recognise the Chancellor's problems in fulfilling the budget target of raising £1000 million from the sale of public assets and I am hopeful that we can complete our discussions with the BSC early next year which would be in good time to complete preparations for selling the shares before the end of the financial year.

I am sending copies of this letter to the Prime Minister, other Members of E(DL), the Attorney General and Sir John Hunt.

PETER WALKER

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2BQ



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Parliament Street
LONDON
SW1E 5HS

- 7 AUG 1979



6 August 1979

SALE OF BRITISH SUGAR CORPORATION SHARES

Thank you for your letter of 16 July about the sale of BSC shares.

I agree with you that there is no legal link between the Government's intention and the power under Section 25 of the 1975 Sugar Act. I do, as you know, attach considerable importance to retaining the present amount of influence over the BSC and we have worked out, in negotiations with the Government, a number of options to retain the Government's influence over the BSC. The BSC has strongly stated its preference for the sale of the BSC. This may be regarded as a very strong indication that the Government would be no longer interested in the BSC. The Government's intention to give a special dividend to the BSC shareholders which I should not wish to renege before they have been reasonably satisfied.

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I am sure the Chancellor's views on selling the BSC are in line with the Government's intention to give a special dividend to the BSC shareholders which I should not wish to renege before they have been reasonably satisfied.

I am sending copies of this letter to the Prime Minister, when he returns at 11.15, the Attorney General and Sir John Hunt.

PETER WALKER

Ecm PA
✓ MS

Treasury Chambers, Parliament Street, SW1A

3 August 1979

G R Waters Esq
 PS/Minister of Agriculture, Fisheries
 and Food,
 Ministry of Agriculture, Fisheries and
 Food
 Whitehall Place
 LONDON
 SW1

Dear Mr Waters,

The Financial Secretary is on holiday at present and therefore has not seen your Minister's reply of 1 August to his letter of 16 July. He did however see the earlier replies of the Secretaries of State for Scotland and Wales, and has noted their preliminary views.

I believe that he would accept that the policy implications of the ideas which he put forward need careful study and that in the first instance this is a task for Forestry Ministers. I take it, incidentally that the new Forestry Commission Chairman will be asked to deal specifically in his report to Ministers with the ideas put forward in the Financial Secretary's letter. However I think he would also be anxious that this study should not be a protracted one and that when the second round of PES discussions commences towards the end of September Ministers are able, in considering the Commission's planting policy, to make decisions which are consistent with the likely final conclusions on forestry policy in the long term.

So far as 1980-81 is concerned, I understand that Treasury officials are currently considering with yours how the general arrangement agreed by Cabinet for land sales in that year might operate in practice. I assume that Treasury officials will also be consulted about the financial aspects of future forestry policy.

I am copying this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland and Wales, members of E(DL), the Attorney General and Sir John Hunt.

Yours sincerely,

P C Diggle

P C DIGGLE
 Private Secretary

From Pol

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

CONFIDENTIAL

Nigel Lawson Esq MP
Financial Secretary
Treasury Chambers
Parliament Street
London
SW1 3AG

VMS

1 August 1979

Nigel

Your letter to me of 16 July about the possibility of selling the Forestry Commission's unplanted land raised wider questions of forestry policy. I agree with George Younger and Nick Edwards that this deserves fuller study and it is of course a task that the Forestry Ministers must undertake in the first instance. We have already agreed how to treat sales of land by the Commission in 1980/81.

A new Chairman is about to be appointed and will be asked to report his views on future policy to the Forestry Ministers in the autumn. The three of us will then be able to formulate new policies in regard to forestry which we shall want to discuss with you and other colleagues in due course.

I am copying this letter to the Prime Minister, the Secretaries of State for Scotland and Wales, members of E(DL), the Attorney General and Sir John Hunt.

Peter Walker

PETER WALKER

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



LM2

CONFIDENTIAL
Financial Secretary
Treasury Chambers
Parliament Street
London
SW1 3AW

1 August 1979

Handwritten signature

Your letter to me of 26 July about the possibility of holding
the Forestry Commission's proposed and raised with questions
of forestry policy. I agree with better forestry and more
that this answer. I am sorry that it is of course a fact that
the Forestry Commission's proposals in the first instance. We
have already agreed how to treat sales of land by the Commission
in 1979/80.

A new Chairman is about to be appointed and will be asked to
report his views on the future of the Forestry Commission in
the autumn. The time of his report will be also to consider new
policies in regard to forestry. We shall want to discuss
with you and other colleagues in the future.

55

I am sending this letter to the Hon. Secretary, the Secretary
of State for Scotland and Wales, members of the Advisory
Committee and Sir John Paul.

PETER WALKER



- 2 AUG 1979



Nigel Lawson Esq MP
Financial Secretary
Treasury
Parliament Street
LONDON
SW1

35

From Nigel

of last

You wrote to Keith Joseph on 16 July about the Industry Bill, and most of your letter was about whether various legislative measures should be included in the Industry Bill to further the disposal of Government holdings in various bodies. You included a suggestion that in the case of British Rail, and perhaps also certain other surface transport nationalised industries, the forthcoming Transport Bill would provide an opportunity to secure the necessary powers, although you specifically recognised in the letter that the sale of business units was not my preferred way of attracting private capital.

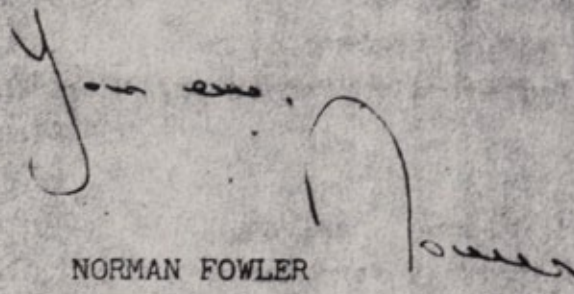
At the meeting of E(DL) on last Thursday we agreed my proposals for dealing with the National Freight Corporation. We also had a discussion about your paper which covered disposals over a wide area. In the light of that I thought I ought to send you this short note to say that I hope to be

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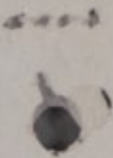
able to let you have my considered views about what we should do in respect of the British Transport Docks Board, and BR subsidiaries, well before the end of the Recess. But, as you recognise, I do not think that it will be appropriate to attempt to sell off particular rail business units - which would certainly risk a major rail strike. I very much hope that it will prove practicable to get a private stake in BR on a wider basis and in a way that would fit better with the second objective quoted in paragraph 8 of your Memorandum E(DL)(79)9.

I must also make the point that my Transport Bill will already be controversial, and I think it would be wrong to add to our difficulties for the sake of taking powers which I would not want to use, but which would certainly face determined opposition. I hope you will not press me on this.

I am sending copies of this letter to Members of E(DL) Committee and Sir John Hunt.


NORMAN FOWLER

SECRET



able to let you have my considered view on the subject
 do in respect of the British Transport Bill, and
 amendments, will before the end of the year. But, as you
 recognize, I do not think that it will be appropriate to
 attempt to sell off particular rail business units - which
 would certainly risk a major rail strike. I very much hope
 that it will prove practicable to set a private sector in
 on a wider basis and in a way that would fit better with the
 second objective quoted in paragraph 2 of your Memorandum.

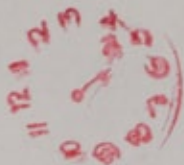
I must also make the point that my comments in 1977
 will already be controversial, and I think it would be wrong
 to add to our difficulties for the sake of taking powers
 which I would not want to use, but which would certainly
 face increased opposition. I hope you will not press me
 on this.

I am sending copies of this letter to Members of
 E(U) Committee and Sir John Hunt.

Walter Fowler
 WALTER FOWLER

525

17 AUG 1979



PECS ph. take a copy for me
then return to Mr Wicks,
etc g/e



H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233-3248

N J Monck
Under Secretary

25 July 1979

G C Dick Esq
Department of Trade
(CAP)(rm.503)
1 Victoria Street
LONDON SW1H 0ET

Mr WICKS - o.e.

26/1

Mr Wicks
Mr Carpenter 9/8

to see with

M:

NCW.

8.6

Dear Sir

SALE OF PUBLIC SECTOR TRADING ASSETS & SHARES

This is a follow-up to my letter to you of 22 May, in which I summarised briefly and provisionally how the various possible ways of disposing of trading assets would affect the PSBR. I now attach a considered paper by the Treasury and the Central Statistical Office, which sets out in more detail how different sorts of transactions affect the PSBR.

2. The main message is that sales of assets will normally reduce the PSBR, but sales of shares in public corporations will only do so if the Government as an act of deliberate policy ceases to exercise control over the corporations in question and no longer provides them with financial support. It would be helpful if future papers to be discussed by Ministers (mainly in the E(DL) Committee) could specifically consider the PSBR implications of proposals for attracting private capital into what are at present public industries.

3. Roy Croft, in his letter to me of 20 June, made the point that decisions on the form of asset disposals and the extent of future Government control should not be determined by the need for the receipts from disposals to count against the PSBR. I doubt in practice whether this will prove a problem. Essentially we see two approaches to the promotion of efficiency and competitiveness in present nationalised industries: either we make sure they are subject to a tight financial regime (cash limits, financial targets, RRR) on the lines set out in Cmnd 7131, or we make them instead subject to the disciplines of the financial markets. The industries where we are contemplating "privatisation" by means of share issues all fall into the category of industries competing in domestic or international markets, which have little, if any, monopoly power in setting their prices. The merchant bank advisers in each case have made it clear that investors are only likely to subscribe for shares on satisfactory terms if it is abundantly clear that the Government will no longer intervene in the commercial judgments and activities of the companies concerned. If we are to give up control, the disciplines of the market can only work if at the same time the Government ceases to provide the financial support which characterises present nationalised industries.

4. Of course, I accept that it might in practice be necessary for the Government to take some action if a "privatised" nationalised industry were subsequently to fail. But I think it essential that neither management nor shareholders should be under the impression that the Government would rescue the companies and protect

nzke

their investments. Unless this position is clearly accepted as soon as any question of a sale of shares arises, we run the risk of losing the ability to enforce present nationalised industry financial controls, without any reduction in our present de facto obligations to stand behind the whole of each nationalised industry's liabilities.

5. Since this issue is of general concern to nationalised industry sponsoring departments, I am giving this letter and the attached paper a wide circulation, as set out in the accompanying list.

Jan
Monck

N MONCK

Encs: 2

C Dick Esq - Department of Trade

cc. R H F Croft Esq)
S J Gross Esq) Department of Industry
A C Russell Esq)
C J Farrow Esq)

G G Campbell Esq)
S W Spain Esq) Department of Energy
C Herzig Esq)
A Blackshaw Esq)
G W Monger Esq)

J W S Dempster Esq)
G Hopkinson Esq) Department of Transport
J E Sanderson Esq)
J Palmer Esq)

J A Scott Esq - SEPD

P Mountfield Esq - Cabinet Office

J D Wells Esq - CSO

E A J George Esq)
R H Atkinson Esq) Bank of England

Mr F Jones)
Mr Bridgeman)
Miss Brown)
Mr F E R Butler)
Mr Lavelle)
Mr Middleton) Treasury
Mr Kerr)
Mr Moore)
Mr Riley)
Mr Wicks o/r)
Mr Wiggins)
Mr de Fonblanque)
Mr Masters)

PSBR AND PUBLIC CORPORATIONS

SALES OF ASSETS AND THE INJECTION OF PRIVATE CAPITAL

Note by the Treasury

The public sector consists of central government and local authorities (which together make up general government) and the public corporations (which include the nationalised industries). The public sector borrowing requirement (PSBR) is a broad measure of its financing needs, reflecting the balance between expenditure and receipts, suitably defined, arising from its activities. Thus the public corporations' need for finance contributes to the public sector borrowing requirement. In practice much of this finance is obtained by borrowing from the central government, whose own borrowing from market sources is increased accordingly. This part of the public corporations' requirement, therefore, is included in the central government borrowing requirement (CGBR) as well as the PSBR, while the remainder, ie that part met by raising money from home or overseas sources in a public corporation's own name, has no effect on the CGBR but is the main element in the public corporations' contribution to the PSBR.

SALES OF ASSETS BY PUBLIC CORPORATIONS

2. If a public corporation divests itself of some activity or asset (eg an hotel, or oil well, or interest in a joint venture) by selling it to new owners in the private sector - or overseas - it acquires cash that it would not otherwise have obtained. This will reduce the PSBR unless:

(a) The corporation spends more than it would otherwise have done, either on current or capital account;

(b) The proceeds are retained on a bank account or invested, even temporarily, outside the public sector (there are administrative rules against their doing this);

(c) The sale is not for cash. The PSBR is a cash concept and sales other than for cash will not benefit it: it follows that sales on deferred terms would benefit the PSBR only as the cash was received.

INJECTION OF PRIVATE CAPITAL

3. Borrowing by nationalised industries and other public corporations is broadly of three types¹⁾: medium and long-term borrowing from the government, temporary borrowing from the market and borrowing from overseas, normally at the request of the government (and generally with the assurance provided by the exchange cover scheme). The restriction on the public corporations' direct borrowing other than short-term from the domestic market was introduced in 1956. It reflected the judgement that it would be cheaper for the public sector as a whole and also facilitate the government's management of the gilt-edged market.

4. A reversion to direct borrowing by public corporations from the domestic market at medium and long-term would not affect the PSBR. If the borrowing replaced Government lending that would otherwise have taken place the shift would change the composition of the PSBR. The CGBR would be smaller and the public corporations' contribution would be larger. If the new domestic market borrowing was used to replace overseas borrowing

neither the size nor the sectoral composition of the PSBR would be changed.

5. At present, as a result both of their current financial structure and performance, and of the constraints of present legislation, hardly any of the public corporations is in a position to issue equity capital²⁾. If it were now possible, however, such finance would be treated not as reducing the public sector's borrowing requirement, but as a way of financing it just like the borrowing, either direct or through the central government, it displaced. The size of the PSBR would only be

1) There are some significant exceptions, for example the National Coal Board's borrowing from the Government includes temporary borrowing.

2) Generally they can, however, set up subsidiaries, and could in principle sell shares in them. But in cases where there are minority interests in nationalised industry subsidiaries, these generally belong to the other partners in negotiated joint ventures.

policies regarding capital investment^{and borrowing}, and if the Government generally accepts responsibility for the financial consequences of intervention in its pricing policies. A public corporation is free to manage its own affairs without detailed control of its operations by government: it is this which distinguishes it from other government trading bodies, which do not have the power to borrow or maintain reserves.

8. It follows that an existing public corporation should undergo a fundamental change in its ownership and control before it can be reclassified to the private sector in the national income and financial accounts²⁾.

(ii) Conditions for reclassification

9. The simplest case to imagine is total disposal. Whatever the means, the outcome would be that the government obtained cash from the private sector (or overseas) in exchange for the concern and had no continuing liability to the buyers. At the time of sale, the PSBR would be reduced by the extent to which the government used its proceeds to avert some new borrowing it would otherwise have had to make. Subsequently, the PSBR would be affected in various ways; it would be made smaller as the company repaid any debt to the government that remained outstanding at the time of sale; but this benefit could be offset if there were fresh government money (grants or otherwise) provided to the new enterprise. Any subsequent borrowing (and interest or dividend payments thereon) by the enterprise from the private sector and overseas would not, of course, feature in the public sector accounts at all. However, if the enterprise sold were profitable to the

2) There was an instance of a public sector activity being 'hived-off' into separate enterprises which it was decided should be classified for statistical purposes as in the private sector even though wholly owned by the government. British Nuclear Fuels Ltd and The Radiochemical Centre Ltd were both set up in 1971 as offshoots of the Atomic Energy Authority (which itself has a rather curious status within central government). Their statistical treatment has not attracted much public attention but for some time there has not been a good moment to change it. Their treatment cannot be recommended as a precedent.

extent that it had no need to borrow (because its surpluses exceeded the funds required for investment), the PSBR would lose the benefit that it would have had if the entity had remained in the public sector.

10. . . A change short of total disposal, but nevertheless substantial enough to warrant being reflected in statistical representation, demands careful specification. There are no precedents in this country³⁾. Private ownership of 51 per cent or more . . . would be sufficient. It is hardly necessary to add the rider that it should be intended to be a lasting arrangement, since it is hard to see how the sale could be made satisfactorily if there were a real prospect of early renationalisation.

11. Ownership remains with the government if the proportion of voting shares in private (or overseas) hands is less than 50 per cent, and the case for re-allocating the concern to the private sector would rest both on the government providing convincing evidence that it had given up control and on a general acceptance that the new arrangements were intended to be permanent. Frequent marginal changes in the degree of government ownership or the degree of control, made to move concerns in and out of the public sector, would be unsatisfactory. The government would have to stand back from the investment or pricing policies of the firm. There would be a great difference of practice from the present regime of agreed financial targets and cash limits. The firm would have freedom to borrow and its status as a borrower should be as nearly as possible that of an ordinary private sector firm.

12. Status as a borrower is clearly one of the more difficult

³⁾ When steel was denationalised, starting in 1953, the Iron and Steel Holding and Realisation Agency was set up. Its primary concern was the sale of the publicly owned iron and steel concerns back to the private sector and individual companies were reclassified to the private sector as they were sold off.

aspects. At present, the nationalised industries enjoy government guarantees within their borrowing limits. Access to a guarantee on its own is not enough to bring a body into the public sector. But it would make it harder to accept that the situation had changed enough to justify excluding from the public sector (and PSBR) what is now a public corporation if the government owned the greater part of the new concern and its borrowing were guaranteed explicitly or implicitly. In practice it is difficult to envisage a situation where the government had relinquished control over capital investment, borrowing limits and prices and would be prepared at the same time to guarantee borrowing.

(iii) NEB and the treatment of its subsidiaries

13. It was decided not to take out of the private sector the part of Rolls Royce that was taken into public ownership, nor, subsequently, British Leyland and the other firms that the National Enterprise Board (itself a public corporation) either owns or of which it holds the majority of the voting shares. These decisions bear in various ways of the treatment of privatised public corporations.

14. There is a good case for saying that some at least should have been reclassified to the public sector, putting weight on factors such as ownership and reliance on government finance. The case for leaving them where they were includes uncertainty about whether the change of ownership is meant to be lasting, the way in which the individual firms continue to be run and the way in which (despite deep financial involvement) relations between government and the firms in question are managed. To the extent that this case implies a suspended judgement, it would argue against immediate reclassification of a newly privatised public corporation - that is, against acting on intentions about removal of control and permanence. To the extent that the case rests on the

4) Housing associations can borrow a certain amount with the aid of guarantees given by the Housing Corporation (a public corporation) but taking everything into account (some are registered as charities) the judgement is that they should be classified to the private sector in the national income and financial accounts.

NEB being a special kind of holding company, there would be a case for some kind of two-tier arrangement for holding the government's majority interest in a privatised corporation, perhaps even using the NEB. But it is doubtful whether such a procedure would materially strengthen any declaration by the government that it was giving up its present control of the industry.

(iv) Procedures for disposing of public corporations

15. This section touches on some statistical points. The legal and administrative procedures chosen will need to have regard to statistical principles and conventions to ensure the desired results.

16. Several arrangements seem possible. Total disposal by the Board of its assets - either as a single concern or in separate lots - is again the simplest to consider. It might use the cash proceeds to repay outstanding debt, or be required to surrender them to the government, or a mixture of both. All methods would reduce the PSBR but the actual nature of the transactions would determine whether they would be recorded as receipts or as negative expenditure.

17. Partial disposal is more complicated. It is the transactions of the concern that affect the PSBR. Thus, as noted in para 6, sales of shares to the private sector by a public corporation would count as part of its financing, and score in public sector financing (the PSBR). To achieve the required result, the present corporation (or the relevant part of it) has to be converted into a company with share capital and be reclassified to the private sector; logically reclassification must take place before any of the shares are sold. The Government must have title to all the share capital and proceed to sell at least a proportion of it to the private or overseas sectors, having declared that it had abandoned control of and no longer stood behind the enterprise in question.¹⁾²⁾

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- 1) If part of a public corporation is set up as a subsidiary in which some or all of the shares are to be sold the conditions for a reduction in the PSBR are
- a. that the subsidiary must be reclassified to the private sector, the public corporation having abandoned control of the new company, and
 - b. that the public corporation selling the shares must hand over the proceeds to the Government or use them for an approved purpose reducing the PSBR - such as investing in public sector debt.
- 2) See next page

18. In any case where government intends to retain 51 per cent or more of the shares, the reclassification is an act of faith. This description of procedure underlines the need for the government's surrender of control to be manifest from the start, if reclassification and the resulting new-style PSBR, thus reduced in scope, are to be generally accepted as valid.

HM Treasury
18 July 1979

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- 2) Public sector transactions in (private sector) company securities score on the expenditure side in the public sector financial accounts and in public expenditure. Thus, for example, public expenditure in 1971-72 and 1972-73 included the cost of the government's take-up of its share of BP Ltd right issue and, in 1977-78, were abated by the proceeds of selling part of its holding.

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Secretary of State for Industry

TOTAL COPIES 25
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Nigel Lawson Esq MP
Financial Secretary
HM Treasury
Parliament Street
London SW1

25 July 1979

Dear Nigel,

You asked in your letter of 16 July for my views and those of others on whether various legislative measures should be included in the Industry Bill which we intend to introduce as soon as possible after the House reassembles.

I entirely agree that we must avoid so overloading this Bill that its timetable is put at risk. The timetable is already tight if we are to have a reasonable chance of completing the NEB disposals necessary to meet the target of £100m before the end of this financial year. Since there is a real possibility of our having to use the guillotine to achieve this in any event, there is a case for including within the Bill other measures which are at least as urgent as the NEB provisions; but even so we do not want to overload the Bill.

Before we have another Ministerial discussion I think it would be useful if officials could meet and prepare a paper setting out the options for our decision. I am asking my officials to put this in hand as soon as possible.

Nevertheless it may be helpful to colleagues if I identify the main items I am considering for inclusion in the Industry Bill. In addition to the NEB, you have mentioned provisions to dispose of British Steel Corporation assets and Cable and Wireless shares; in the case of BSC it is most unlikely that the provisions would ever be invoked and my present expectation is that they will not be needed. It will however be necessary to take powers to cover the disposal of assets by the English Industrial Estates Corporation, and to increase the statutory borrowing limit of British Shipbuilders; the latter provision is in fact even more urgent than the NEB provisions, and might have to be dealt with separately for that reason. We also wish to extend the shipbuilding home credit scheme to cover conversions (which will be coupled with the change in the British Shipbuilders borrowing limit),

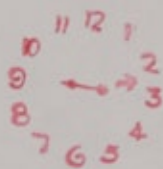


and I am also considering the possibility of various other amendments to the Industry Act 1975.

Evan

Kerr

26 JUL 1979



SUBJECT

cc Master
ops

CONFIDENTIAL

JS



10 DOWNING STREET

c.c. HMT
DI
MAFF
DTrade
DN
Ch.Sec.
Fin.Sec.
HO
CDLanc
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Cab.Off.

THE PRIME MINISTER

Personal Minute

No. M8/797

SECRETARY OF STATE FOR THE ENVIRONMENT

SALE OF NEW TOWN ASSETS

According to present plans, I understand that the sale of New Town assets are expected to contribute some £70 million towards reducing the PSBR this year. This is on the assumption that we proceed without legislation.

It seems that a great deal more could be achieved if we legislated - perhaps sales amounting to £1 billion or over. In order to make the maximum contribution to cutting back the PSBR this year and next through the sale of New Town assets, I would be grateful if you could now urgently prepare a programme of sales on the assumption that we do legislate. If we could mount a major programme of sales, this could substantially ease the Chancellor of the Exchequer's difficulties.

I am sending copies of this minute to other members of E(DL) Committee, to the Home Secretary, the Chancellor of the Duchy of Lancaster, the Lord Chancellor, the Chief Whip and to Sir John Hunt.

Barbara Heister

24 July 1979

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

24 July 1979

The Rt Hon Michael Heseltine MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1

Ron Michael

*R-
2577*

DISPOSAL OF NEW TOWN ASSETS

Thank you for your letter of 18 July. I accept your further offer of £70m as a contribution towards our target for the disposal of assets, on the basis that public expenditure reductions of the required order can be secured by extending the ban on new contracts if acceptable proposals for the sale of assets are not received. We shall need to agree the consequential changes in the cash limits but that can wait until the new towns have served up their homework.

I am sending copies of this letter to the Prime Minister, to the other members of E(DL) and to Sir John Hunt.

Lawson
Nigel

NIGEL LAWSON

63 JUL 1975

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PRIME MINISTER

STATEMENTS IN THE HOUSE: BRITISH AEROSPACE AND SHIPBUILDING

Sir Keith Joseph's statement (Flag A) on disposal of shares in British Aerospace was received quietly. Mr. Silkin said that he did not think that the trade unions agreed with the proposal; that without Government funds there would be no British Aerospace; that we are moving towards losing our manufacturing capacity; and that the question of restoring these assets to public ownership would be the subject of consideration by the Labour Party over the coming months.

Sir Keith Joseph said that he hoped to persuade union members that commercial management would lead to more secure jobs. In answer to further Questions, he said that the Government had not yet decided the proportion of shares which would go to employees, and that the objective was to ensure that investment and production decisions were not made by politicians, provided that the national interest was safeguarded; that there would be no change in defence contracts or sales; and agreed with the proposition from Christopher Murphy (Welwyn and Hatfield) that the HS 146 should be the subject of commercial decisions by the new company.

Mr. Heffer said that the next Labour Government would take back these assets without paying out great sums in compensation. Sir Keith said that Mr. Heffer did not yet speak for his Party. Mr. Heffer told him to wait and see.

The questioning after that concentrated on what Labour saw as a chink in Sir Keith's armour: the question of foreign ownership in shares in British Aerospace. He was subjected to repeated Questions about how the Government could prevent foreign competitors from acquiring large blocks of shares in the company. He replied that the Government would retain control and that there were a variety of powers open to it to prevent, for example, directors being appointed by groups of foreign shareholders.

23/7/79 NJS
/Shipbuilding



3

10 DOWNING STREET

PRIME MINISTER

• Sale of New Town Assets

You said you would like to send a minute to Mr. Heseltine, following your conversation with him. I attach a draft. (At Flag A is Sir Kenneth Berrill's note.)

(Pc ↓)

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..

23 July 1979



STATEMENT BY THE SECRETARY OF STATE FOR INDUSTRY

FUTURE FINANCIAL STRUCTURE OF BRITISH AEROSPACE AND
BRITISH SHIPBUILDERS

With permission, Mr Speaker, I shall make a statement on the future financial structure of British Aerospace and British Shipbuilders.

2 Since taking office, we have carefully considered the circumstances of these industries, in the light of the undertaking, set out in our Manifesto, to introduce private ownership.

Aerospace

3 I turn first to aerospace. British Aerospace, with its spread of interests embracing civil and military aircraft as well as guided weapons and space systems, makes a substantial contribution to both our national economy and our national defence. Despite the fierce competition in this international industry, I am confident that our industry has the talents and skills to flourish. In the years ahead it will generate large internal funds, but substantial external funds will also be required. I have therefore considered how these demands may best be financed. As part of these considerations my colleagues and I have consulted, among others, the Board of British Aerospace and the trade unions representing those employed in the industry.

4 The Government propose that British Aerospace should in future operate within the framework of the Companies Acts. The ownership of the industry will therefore be transferred from the present statutory corporation to a company incorporated under the Companies Acts. Initially the shares in that company will be held by the Government, which will then make shares available to private ownership. Employees will be given a special opportunity to buy shares. The Government intend to retain a shareholding of about half.

5 The change to company status will not result in any alteration to the present business; its assets, liabilities and contracts will all be transferred to the new company. I would also hope

/to ...



to secure continuity in management at board level.

6 The Government looks to the company to obtain the external funds it needs from commercial sources, although it will retain the power to provide funds on commercial terms, if this proves necessary. On that basis, we will not expect to intervene in the administration of the company as a commercial concern.

7 Legislation will be introduced before Christmas to permit these policies to be carried out. We have considered a number of alternative courses, including the introduction of private capital into the Dynamics business. While the legislation the Government will be bringing before the House would not exclude this, the Government's strong preference is to maintain the present structure of the industry.

Shipbuilding

8 I have also considered whether a comparable financial reconstruction might be made for British Shipbuilders. In principle, I should have liked to introduce private sector finance to this industry at the same time. I have concluded however that, in light of the particular problems of the industry and the consequent difficulty of predicting its future size, about which my Hon Friend is to make a statement later today, this is not the right time. The Government has therefore decided not to bring forward measures at the moment to introduce private sector finance to the shipbuilding industry.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard
British Aerospace and British Shipbuilders
23 July 1979 Columns 29-40

Signed AWayland Date 27 October 2009

PREM Records Team

*With the compliments of
the Attorney-General*

*Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand. W.C.2A 2LL*

01 405 7641 Extn. 3201



01-405 7641 Extn

~~SECRET~~
SECRET

E. C. P. S.
ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

~~SECRET~~
23 July, 1979

Dear Peter:

PLM

DISPOSAL OF PUBLIC SECTOR ASSETS
FORESTRY COMMISSION

In my letter of 18 July to Nigel Lawson, copied to you, I gave some preliminary advice about the disposal of land under the Forestry Act 1967.

2. The Lord Advocate has been considering section 39(2) of the 1967 Act as it relates to the sale of land in Scotland and after discussions between his and my officials I wish to add to what I said in paragraph 11 of my letter.
3. As I have said, section 39(2) of the 1967 Act includes two sets of criteria which have to be met before a sale can take place. I attach a copy of section 39(2). The criteria in paragraph (b) apply exclusively to sales of land in Scotland but the criteria in paragraph (a) apply to sales of land anywhere in Great Britain. The two sets of criteria are in the alternative, with the result that land in Scotland can be sold under either paragraph of section 39(2), whereas land in the rest of Great Britain can only be sold under paragraph (a), assuming the relevant conditions to have been met.
4. I thought it as well to go into this fuller detail since it may not have been clear from my letter that the power to sell land

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in paragraph (a) of section 39(2) is available in respect of land in Scotland. It is so available.

5. The effect of this is of course that the power to sell land in Scotland is wider than that to sell land in the rest of Great Britain. But whether it is apt for present purposes is still, I think, open to doubt; I shall of course be willing to advise further if the proposals are adopted and you let me have all the details. If the proposals include sale of land in Scotland, the Lord Advocate should of course be consulted. He agrees with the views expressed in this letter.

6. Copies go to all the recipients of my letter of 18 July.

Yours ever
Michael

Rt Hon Peter Walker MBE MP
Minister of Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London, SW1A 2HH

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PART III

(b) not less than six nor more than eight shall be persons appointed by the Commissioners after consultation with organisations appearing to them to represent the interests of timber merchants.

(3) Each regional advisory committee shall consist of not less than seven nor more than nine members, and of those members (other than the chairman) not less than four shall be persons appointed by the Commissioners after consultation with organisations appearing to them to represent the interests of owners of woodlands and timber merchants respectively and organisations concerned with the study and promotion of forestry.

(4) The Commissioners may pay to the members of the Home Grown Timber Advisory Committee or of a regional advisory committee such allowances as they may with the consent of the Treasury determine.

Acquisition and disposal of land

39.—(1) Subject to the provisions of this Act, the Minister may acquire (by purchase, lease or exchange) land which in his opinion is suitable for afforestation or for purposes connected with forestry, together with any other land which must necessarily be acquired therewith, and may place any land acquired by him under this section at the disposal of the Commissioners.

Power of
Minister to
acquire and
dispose of land.

(2) The Minister may—

(a) sell any land acquired by him under this section which in his opinion is not needed, or ought not to be used, for the purpose of afforestation or any purpose connected with forestry, or exchange any such land for other land more suitable for either of the said purposes and pay or receive money for equality of exchange;

(b) in the case of land so acquired in Scotland, sell it if he is satisfied that the sale—

(i) is desirable in the interests of rational land management; and

(ii) would facilitate the discharge by the Commissioners of any of their functions.

(3) The Minister shall have power, in the case of land acquired by him under this section,—

(a) to manage and use the land for such purposes as he thinks fit (this power to include that of erecting buildings and other works on the land) where it is not for the time being placed at the disposal of the Commissioners under subsection (1) above; and

(b) to let the land, or grant any interest or right in or over it.

23 JUL 1979



PART 2 begins:-

Harvard extract 23. 7. 79

PART 1 ends:-

Harvard extract 20. 7. 79





END

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February 2010