PREM 19/1460

PART 12 MT

175

Secret Confidential Filing

Policy Towards Privatisation
Disposal of Public Sector Assets.
Contracting out of Public Sector Functions.

ECONOMIC POLICY

Part 1: June 79
Part 12: April 85

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~15.4.85~~		~~22.7.85~~					
~~18.4.85~~		~~24.7.85~~					
~~29.4.85~~		~~26/7/85~~					
~~1.5.85.~~		~~31.7.85~~					
~~7.6.85.~~		~~5.8.85~~					
~~13/7/85.~~		~~7.8.85~~					
~~15.5.85~~		~~8.8.85~~					
~~14.5.85~~		~~16.8.85.~~					
~~20.5.85~~		~~30.8.85~~					
~~23.5.85.~~		~~4.9.85~~					
~~23.5.85~~		~~25.9.85~~					
~~24.5.85~~		~~19.11.85~~					
~~28.5.85~~		~~22.11.85~~					
~~30/5/85~~		~~28.11.85~~					
~~7.6.85.~~		~~5/12/85~~					
~~11/6/85.~~		29.11.85					
~~18.6.85.~~		Pt Ends					
~~1.7.85~~							
~~3.7.85~~							
~~12.7.85~~							
~~16.7.85~~							
~~19.7.85~~							

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PART 12 ends:-

Stewart to PM 29.11.85

PART 13 begins:-

RTA to PM 2.12.85.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A) (85) 26	8.5.85
E(A) (85) 10th Meeting, Minute 2	15.5.85
E(A) (85) 64	8.11.85

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed M Wayland Date 21 January 2014

PREM Records Team

(2)

MEA seen

CC PG

MO 10/2

// CDP on return

Prime Minister
You will wish to be aware that MH intends to allow civil servants to bid for the contract to run Devonport Dockyard
3/12

PRIME MINISTER

existing managers

COMMERCIAL MANAGEMENT OF THE ROYAL DOCKYARDS - MANAGEMENT BID

As I mentioned to Cabinet on Thursday, there has been a welcome development in the process of transferring the Royal Dockyards to commercial management by 1st April 1987 of which you and colleagues should be aware as it raises issues of both principle and presentation.

2. A small team of senior managers at HM Dockyard Devonport, led by the Managing Director and including serving Royal Navy Officers as well as Civil Servants, have put together an outline plan to bid in competition with other companies for the contract to run Devonport Dockyard. They have held discussions in confidence with Plymouth City Council, with Peat Marwick Mitchell and with Barclays Merchant Bank; a limited company has been formed. The Managing Director has now written formally to us seeking confirmation that the Government would have no objection to a management bid and also asking what assistance, if any, we would be able to offer. I attach a copy of his letter. The team plan to make an announcement of their intention on 11th December but there must be a risk that their

initiative will leak locally before then. It may well be that the matter will be raised or even announced during the Second Reading of the Dockyards Bill on Monday

3. There are, of course, many precedents for management buy-outs. In this case, however, we are faced, for the first time, with a potential bid from Civil Servants for a large scale operation for which they have important day to day responsibilities. Before allowing the Managing Director to proceed I suggest we need to be satisfied on three main counts:

a. that his proposals are consistent with our policy for the introduction of commercial management;

b. that they have at least a prima facie chance of success;

c. and that any conflicts of interest between public service and private interest can be resolved.

We have then to consider how best to present our decision.

Government Policy

4. Our aim is to introduce the maximum amount of competition into the task of refitting and repairing the Fleet. We need a strong pool of interested companies from which to select,

through competition, the future commercial manager. At Devonport the interest, though growing, is not as strong as at Rosyth and another viable contender is to be encouraged. The readiness of dockyard management to bid for the scheme should demonstrate support for our policy and have valuable presentational and industrial relations advantages.

Viability

5. The Managing Director and his team are at a very early stage in their plans and recognise that there are many commercial skills which at present they lack. But they have unrivalled experience of the main task and have already given careful thought to the outside talent they would need to recruit to make their proposal a strong runner.

Conflicts of Interest

6. I have looked to see whether we could, or should, adjust the top management of Devonport Dockyard to reduce the possibility of any conflicts of interest arising. Some minor changes in the responsibilities for dealing with prospective contractors may be needed but, at this stage, I believe there is a broad identity of interest between the Managing Director as a Ministry of Defence public servant and the Manager of the Dockyard as a potential bidder. For example in both roles he needs to demonstrate a commitment to supporting the Fleet, to

increased efficiency and to the future well-being of the workforce. I conclude therefore that for the moment, and provided we have undertakings, which we are obtaining, sensibly controlling the use of public facilities and private business during working hours, we should have no difficulty in accepting the position. There is also, inevitably, a degree of common interest, based on his own future employment prospects, between the Managing Director as public servant, as potential bidder and as a possible employee of the successful tenderer.

Balance of Advantage

7. The costs involved in preparing a bid could amount to some £250,000-£350,000 and I regard it as a strong sign of personal commitment that the Managing Director expects his senior management to put their own financial resources at risk from an early stage; they will however require additional backing, which they may not secure - and there is the risk that they may not win the competition. But the point at issue now is whether we should allow them to try. My strong recommendation, based on discussions my senior officials have had with the Managing Director, is that we should and, subject to the requirement that the competition for the contract must be seen to be fair, my Department will give them, and any other such in-house initiatives which occur, what help it can. Here I have in mind giving whatever assistance we would consider making available to

any competitor, as well as any which we could appropriately justify on grounds of advantage to the Department in the management of the Dockyard while it continues to be in our own hands. Throughout we would, of course, need to be careful not to attract justifiable criticism of giving unfair advantage.

8. The alternative - of not supporting them - will not necessarily discourage them since it is always open to Civil Servants to resign in order to pursue their interest; but their task will be substantially more difficult and our denial of help would undoubtedly be used against us. Nor would it be in our wider interest as we need the team to continue to manage the Dockyard through the difficult period immediately ahead.

Presentation

9. If we allow the Managing Director to proceed we run the risk of attack from two directions. On the one hand, our critics will say that we are giving undue advantage to our own employees - whose performance we have said we want to improve - and are not genuine in our search for a commercial solution: this could discourage the interest we seek from established private sector companies. On the other hand, we may be accused of abandoning our preferred scheme because of lack of commercial interest and opting instead for a form of management-led plc.

We shall need to handle the announcement carefully but I see no insuperable difficulty in refuting these arguments and using this new interest to the advantage of the Government and the Royal Navy.

Recommendation

10. In summary, I see advantage in publicly supporting the proposals of the Managing Director at Devonport that he be allowed to put forward a bid for the future management of the Dockyard. On the assumption that my colleagues will support this welcome development, I would hope to be free to make public reference to it at any time from the opening of the Dockyards Bill debate on Monday.

11. I am copying this minute to the Lord President of the Council, the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, the Secretary of State for Scotland, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Secretaries of State for Employment and for the Environment, the Attorney General, the Minister of State, Privy Council Office and the Secretary of the Cabinet.

Ministry of Defence [Approved by the Defence Secretary & signed in his absence]
29th November 1985

MANAGING DIRECTOR
H.M. DOCKYARD, DEVONPORT,
PLYMOUTH, PL1 4SG
Telephone: (Direct Dialling)
0752 - 55 - Ext.3987/3237

Our Ref: MD/PS 2048/149/2

The Right Honourable Michael Heseltine MP
Secretary of State for Defence

22nd November 1985

Dear Secretary of State,

The purpose of this letter is to inform you that I and certain of my senior managers have been considering the options open to us with regard to the future management of Devonport Dockyard.

2 We are convinced that, with a relatively small injection of financial and commercial talent from industry, the existing management team and workforce at Devonport have the skills to transform the Dockyard into a highly successful business enterprise. This would benefit the Royal Navy, the taxpayer and the local community.

3 The introduction of commercial management by bringing in outside contractors, as currently proposed by the Government, is facing widespread opposition from employees, the local authority and many politicians. To secure the improvements that we know are possible at Devonport and to achieve a successful transition to the private sector, close and willing co-operation between the workforce and management with the support of the community is essential. This has led us to the conclusion that the operation of Devonport Dockyard by a management-led company, involving the employees, stands the best possible chance of success.

4 We propose to form a Company, structured along the lines of the National Freight Consortium, to tender for the contract to manage Devonport Dockyard. It is envisaged that whilst shares in the company would be held by management and employees, there would also be a shareholding by institutional investors and possibly the local authority.

5 In discussions with an international firm of Chartered Accountants and a London based Merchant Bank, it has been confirmed that our outline proposals appear viable and would be likely to receive the necessary professional and financial support. A great deal of further work is of course necessary before a fully defined set of proposals can be put forward. Before embarking on this more detailed work and broadening out the involvement amongst other senior managers, I would be grateful if you could confirm that the Government would have no objection to this method of achieving the commercial management of Devonport Dockyard. It would also be helpful to have an indication of whether the Government is prepared to make available every reasonable opportunity and assistance for the necessary professional work to establish the viability of the proposal.

6 Only a small number of people, including those who have advised us from the business sector, have been involved in the work so far. Whether the proposal is developed further or discontinued, it is our wish that the matter should not become public knowledge at present. May I therefore ask that this letter be treated in the strictest confidence.

Yours sincerely,

David Johnston

SELECT COMMITTEE REPORT ON ROYAL DOCKYARDS

We welcome the Defence Select Committees continued interest in the future of the dockyards. We shall study their new report with care and there will be ample opportunity to discuss the points they have made during the Second Reading of the Dockyard Services Bill.

However, I note that the Committee agrees with the objective of infusing the Royal Dockyards with entrepreunial dynamism and a spirit of competition is a laudable one and I still think that my Rt Hon Friend's proposals are the best means of achieving this

28 November 1985

National Bus Company

172 Buckingham Palace Road
London SW1W 9TN
Telephone 01-730 3453
Telex 27442

FROM: Sir Alfred Sherman

26 November 1985

PERSONAL

Nigel Wicks
Principal Private Secretary
10 Downing Street
London SW1

Dear Nigel

Further to our conversation I enclose a copy of the Chairman's letter to the Secretary of State. One member of the Board has already sent a copy to John Moore.

With best wishes,

Yours sincerely

Alfred

Alfred Sherman
Studies Consultant

Enc

RJ Norgrove
to see + File
NW

cc NBC Board Members
Mr B C Sellars
Mr H W Taylor
Barclays Merchant Bank

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1P 3EB

21 November 1985
GRB EH

(Dear Secretary of State)

The Members of my Board welcomed the opportunity of meeting you and your colleagues on Wednesday, 13 November 1985.

Thank you for your assurances that :

- the disposal programme may be a staged programme
- that the policy preference for buy-outs will permit some price preference to buy-out offers over third-party offers
- that trade purchasers will not be able to pre-empt serious buy-out offers
- that we will have your support to put in place any necessary machinery to effect the programme.

My Board are conscious of our duty to propose a programme to you, and we are keen to fulfil that duty. If I may say so, we are keen to do so ourselves and in a positive fashion. We believe we will not help you nor lay the ground for success if we attempt to adopt as our own, a programme about which we have reservations and in which little discretion or role is envisaged for the Board. We think the best outcome all round will be arrived at by our proposing a programme to which we can commit ourselves wholeheartedly.

- As will have become clear to you at your meeting, the primary concern is the sheer logistical problem of undertaking a disposal programme which provides for the sale of seventy to eighty companies to employees over a three-year period. You will be aware that we have been advised by Barclays Merchant Bank that such a programme would be unattainable, the reasons for this view have been discussed with your officials and are available in writing should you wish to see them. Consequently, before reaching any conclusion in the matter my Board decided to defer any decision until the meeting which you

suggested between Barclays Merchant Bank and Price Waterhouse had taken place.

This meeting has now been held and it became clear that on your behalf Price Waterhouse have approached a number of banks and institutions on the possible provision of a single or syndicated fund or funds to back individual bus company buy-outs, thus seeking to achieve a degree of uniformity in negotiation and in contractual relationships. This is a course of action which we considered, but excluded on the grounds that a positive response in principle would be the most likely reaction but only as a means of marking that bank's interest in the Government's wider privatisation programme. We felt that any such response in principle would be so hedged with reservations related to the circumstances of the individual applications as to seriously limit its value.

It seems that this is the nature of the qualified response which Price Waterhouse are expecting and I am not sure that it takes us much further forward. This meeting concluded with a re-affirmation by Barclays Merchant Bank of their previously stated view of the 70/80 company programme, but Price Waterhouse declined the invitation to express their view on the matter.

In this situation the Board feel that they must recognise the advice provided by Barclays Merchant Bank which is in accord with the individual judgement of Members drawn from their wide collective experience in industry and commerce.

The second point of concern is in part related to the first in that the problem of volume is being compounded by a request to create 9 new companies, each of which will play its part in the disposal programme. The Board were pleased that discussions with officials had led to an indication that the timescale for deploying these companies was not as critical as had first been thought but, nevertheless, 9 companies represents a 12-month disposal programme on the assessment of Barclays Merchant Bank.

It is a pity that these issues were not ventilated at our meeting, which concentrated on the practicalities of privatisation, but there are points related to the newly suggested sub-division of companies upon which my Board feel very strongly. In particular they find it strange that no account appears to have been taken of the proposals, agreed by you, which they have in hand to put the operating companies at arm's length from NBC on 1 April next year.

In short, my Board consider that the proposals for further sub-division are:

i unsound in that they are not based upon operational practicality, nor do they have regard to the infrastructure available in some of the proposed units;

ii they believe them to be unfair because they represent an unashamed weakening of the competitive position

of existing companies and in that, following this weakening, management/employees are to be invited to participate in a buy-out in an unnatural company some of which will have little chance of surviving in their new environment. Thus, they will hamper the Board in pursuing its duty to provide "sustained" competition;

iii they are not necessary because the change from a centrally directed organisation to a financial holding company which is projected for 1 April 1986 will control predatory behaviour. After all it is expected that this arrangement will deal with such behaviour by local authority operators of all classes under the proposals being introduced by Government. Subsequent to privatisation we believe that the fair trading legislation is sufficiently robust to deal with any problems;

iv their creation will militate against a swift and smooth privatisation because some unattractive units will emerge.

- A third issue which is exercising certain Members is one of considerable weight. During the two meetings which have been held since they saw you these Members have reminded themselves that they stand in a fiduciary capacity towards the Company and they do not believe that they can empty themselves of all responsibility for the price at which the various units of the National Bus Company are put into the private sector. They believe that an unstructured disposal programme which is being pressed forward with undue haste will mean that there will need to be a substantial discounting against asset values.

  The Members of my Board have a wealth of industrial and commercial experience and certain of them feel that they would be placed in an invidious position if companies were released at values which were proved shortly afterwards to have been substantially understated. This is a point upon which a number of Members felt great unease.

  Taking into account these reservations the Board has arrived at a strategy :

  - for a staged programme
  - with initial sounding out of individual managers
  - with a stated preference for buy-outs
  - with review between stages
  - with recognition that such review may lead in the second or subsequent stages to grouping of non-contiguous companies.

They take the view that a not unreasonable way forward would be for the Chairman/Chief Executive to ask those of his Managers who feel that they have consulted with their management colleagues as to the degree of commitment necessary to secure a management/employee buy-out, and who have a desire to move quickly in this direction, and who understand the full implications of their decision, to so indicate. These companies would be put in touch immediately with independent advisers on terms already discussed between your officials and Brian Granger, and would be assisted in every way to achieve an early culmination of their efforts. In the event that the response to this very first stage brings the volume problem to a head, we would want to discuss with you how to select a manageable number of companies to go forward immediately.

In the meantime, the remaining managers would be consulted with a view to ascertaining their considered intentions so that an assessment could be made of those companies where the management did not wish to mount a bid and those companies where the management might wish to mount a bid with more advice, or where several managers took the view that they needed to go forward together to create a sustainable enterprise.

In the first case Members would wish to consider the possibility of trade sales and, in the second and third cases, would wish to consider further how those companies could best go to market.

The programme could thus become structured in the light of the experience with the early sales. It would require that the proposed new sub-divisions should not take place at least until the managements of the companies proposed for sub-division had been given an opportunity to say whether or not they were ready to go into a management buy-out now. Any further action would depend upon the shape of the disposal programme which emerged in the light of experience.

In framing this strategy we have been concerned about three issues in particular:

- volume
- your wish for sub-division of certain companies not so proposed by ourselves
- difficulties relating to price

Our preferred strategy is, therefore, one which :

- recognises from the start the prospect of grouping in Stage II
- begins at once with the companies as they are - i e without those further sub-divisions which you

The Rt Hon Nicholas Ridley MP

NBC
21 November 1985

seek but subject to review after declarations by managers at Stage I.

- allows time and flexibility for the market place and deals to mature so that we have greater rather than lesser comfort about the appropriateness of prices.

As you know, a General Managers' Conference has been called for Thursday, 28 November, in Birmingham and a further Conference on Thursday, 5 December. I am anxious to use these opportunities to begin the process of publicising to managers matters on which we have agreed with you, and sounding out which managers are interested to participate in Stage I efforts. I have, therefore agreed with my Board an outline of what I would wish to say to General Managers at the first conference. My Board would be grateful for your early and favourable response to this, a copy of which is attached. -/-

I very much hope that you will be able to give me the positive response which I seek so that I may address General Managers as indicated.

The alternative would be to say nothing at all about disposal strategies and for me to speak only on the management and control mechanisms which will be in force for 1986 and such longer period as NBC continues in existence. I do not believe this is a real alternative. General Managers are under very great strain and wish to know what the future holds for them. There is much that you have said to us which is positive news for them to hear - with that in mind I look forward to hearing from you.

(Yours ever

Robert Brook)

Enc

CC HB

CF
Please tell Mr Stark that we shall await Cabinet Office comments.
DRN
25/11

PRIME MINISTER

TRANSPORT ACT 1985 : THE INTRODUCTION OF COMPETITION INTO LOCAL BUS SERVICES : MINISTERIAL RESPONSIBILITIES

George Younger, Nicholas Edwards and I have been considering how the Ministerial responsibilities for bus services in Great Britain should be divided between us following the enactment of the Transport Act. The Act will make considerable changes affecting both operators and local authorities and create a number of important new functons for the 'Secretary of State'. Most of the existing Ministerial functions will also continue under the new Act, though some will be in a modified form. In view of the changes which the Act is making, we thought it was right to review the allocation of responsibilities across the whole range of functions affected.

Effect of the Act on Present Functions

The Transport Act will abolish road service licensing outside London but it modifies and strengthens the system of operator licensing administered by the Traffic Commissioners. The existing fuel duty rebate system for local services is continued in a slightly modified form. The Act also retains the existing system of local authority taxi and private hire car licensing but introduces some important reforms to reduce the restrictions on the number of taxis which apply in some areas and to allow taxis and licensed private hire cars to carry passengers at separate fares in certain circumstances. The duty of local authorities to co-ordinate and plan public transport is removed, but their powers to subsidise uneconomic services are retained and they are given new powers to promote the operation of services in conjunction with each other subject to this not inhibiting competition.

New Functions

The Act creates a whole range of new Ministerial functions. These are broadly in relation to:

i) the operation of the new registration system for local services, and the determination of appeals against the imposition of traffic regulation conditions which Traffic Commissioners will in future be able to attach to operators' licences;

ii) the privatisation of the National Bus Company;

iii) the establishment of new arm's length bus companies to be formed by Passenger Transport Executives and District and Regional Councils, and the subsequent oversight of their financial and administrative relationship with their parent authorities;

iv) the establishment and oversight of the system whereby in future Passenger Transport Executives and Local Authorities will secure service subsidy contracts for uneconomic service by competitive tender, including the issuing of regulations governing the tendering procedures;

v) the establishment and administrative oversight of the new concessionary fare schemes to be operated by local authorities, including the issue of regulations and the determination of applications made to the Secretary of State in connection with compulsory participation in those schemes;

vi) administering the new system of grants including new innovation grants for rural passenger transport services in Wales and Scotland (adequate powers to pay innovation grants already exist for England);

vii) the establishment of a Disabled Persons Transport Advisory Committee and the issue of guidance by the Secretary of State in relation to the transport needs of disabled people.

Allocation of Ministerial Responsibilities

Of the present functions which are to continue after commencement of the new Act, in January, I currently have responsibility in Great Britain for overall Governbment policy towards the bus industry, for the appointment of Traffic Commissioners, for the driver and bus licensing system and for administering the fuel duty rebate system. I also have Ministerial responsibility for taxis and hire car licensing system in England and Wales; George Younger is responsible for this in Scotland.

George, Nick Edwards and I feel that, for these existing functions, the present allocation of Ministerial responsibilities is the right one.

In determining the allocation of the new responsibilities we believe that the guiding principle should be that functions which form part of a unified system of control of road passenger transport should continue as now to be operated on a Great Britain basis, while those more closely related to local government, local government finance and local traffic regulation should go to the territorial Secretary of State.

In terms of the new Ministerial functions identified above, we are therefore proposing that the determination of traffic regulation conditions appeals, functions (iii), (iv), and (v) listed above, and the issue of any advice to local authorities on the transport needs of the disabled should be administered territorially. The administration of rural innovation grants in Scotland and Wales would also be territorial functions.

When we have modernised the legislation on taxis and hire cars Nick and I feel that too should become a territorial responsibility in Wales, as it is already in Scotland.

Legal Position

All the powers in question are vested by the Act in the Secretary of State at large and can be allocated administratively.

Implications of the proposal for expenditure and manpower

The three Departments will not be seeking any increase in their manpower or expenditure as a consequence of our proposals.

Approval and Timing of new Ministerial Responsibilities

I should be grateful for your approval to these proposals. We shall be making a number of regulations in mid-December to come into effect at the beginning of January. We should like to make it clear which Secretary of State will be involved in making the various regulations when we consult on the draft regulations later this month.

I attach a draft written PQ which might be used to inform Parliament of the allocation. Since what we are proposing is very much in line with the existing arrangements you may feel it would be appropriate for me to answer the PQ.

I am sending copies of this minute to the Chancellor of the Exchequer and to the Secretaries of State for Environment, Scotland and Wales and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY

22 November 1985

4f

PARLIAMENTARY QUESTION

Matthew Parris:

To ask the Prime Minister if she will make a statement about Ministerial responsibilities for local bus services under the Transport Act 1985.

Draft Reply

Ministerial responsibility in Great Britain for overall Government policy towards the bus industry, for the appointment of traffic commissioners, for driver and bus licensing, and for administering the fuel duty rebate system will remain with My Rt Hon Friend, the Secretary of State for Transport. He will also continue to have Ministerial respsonsibility for taxis and hire cars in England and Wales and my Rt Hon Friend, the Secretary of State for Scotland, will continue to be responsible for this in Scotland.

For the new functions created by the Transport Act 1985, I have decided that my Rt Hon Friend, the Secretary of State for Transport, will be responsible in relation to the operation of the new registration system for local services, the privatisation of the National Bus Company, the establishment of a Disabled Persons Transport Advisory Committee and the administration of transitional rural bus grants. My Rt Hon Friends the Secretaries of State for Scotland, Wales and Transport will be responsible in Scotland, Wales and England respectively for the determination of traffic regulation conditions appeals; the establishment and oversight of new local authority and PTE bus companies; the issuing of regulations governing the procedure for tendering for subsidised service; and the determination of applications related to concessionary fares and related matters including the issue of regulations. The administration of the new system of rural innovation grants in Scotland and Wales under Section 108 of the new Act will also fall to my Rt Hon Friends, the Secretaries of State for Scotland and Wales respectively.

10 DOWNING STREET

Prime Minister

There are bound to be press reports of this meeting.

Water is a reasonable candidate for privatisation. But water and sewers are very emotive. In view of the growing unease about the privatisation programme it seems to me important that there should be clear conclusions on the need for a fully adequate regulatory framework. What that means can be argued about separately.

DSR
18/11

PRIME MINISTER

PRIVATISATION OF THE WATER AUTHORITIES : E(A)

E(A) will consider privatisation of the water authorities tomorrow. We had a seat on the official committee at DoE which examined the issue. The proposals in the paper from Kenneth Baker, Nicholas Edwards and Michael Jopling are:

a) that the water authorities should become public limited companies and should be privatised as they stand, without boundary changes and without separating out the regulatory functions, because the principle of one authority handling the supply of water and the sewerage in each river-basin catchment area has proved successful and is the envy of overseas water experts;

b) that the water authorities should be economically regulated by price, because this gives water authorities, which will be local monopolies, the biggest incentive to keep operations efficient and costs down;

c) that Ministers will keep their responsibility for environmental policies to do with water supply and sewers, and will have power to see that water authorities carry those policies out, because, athough water supply can and should be done privately, water is bound to remain an issue of political interest.

Water is a good candidate for privatisation because:

* many, though not all, of the water authorities are already in good shape for private ownership and do not need a long period of elaborate restructuring;

* the water authorities, between them, own substantial assets and employ more than 50,000 people, so they will make a big contribution to the privatisation programme;

* the water authorities say they need to invest in renewing their assets faster than Treasury constraints permit, and privatisation would free them from those constraints and allow them to borrow from the private market for future investment, yielding more spending on Britain's now-fashionable "infrastructure" without any adverse effects on the PSBR;

* We would not be selling off a national monopoly (like BT) because the performance of each of the 10 water authorities can be measured against that of the others, introducing an element of competition at the margin not unlike that of the four regional groupings of railway companies before nationalisation;

* the general advantages of privatisation, such as wider share ownership by the public and employees, removal of State interference, and realisation of assets, apply with full force.

You may get some arguments against water privatisation on the grounds that it is not worth the hassle, that it will not yield much to the Exchequer or that the legislative programme for 1986/7 is going to be too crowded.

We think you should meet such arguments by saying that water privatisation is certainly worthwhile, that it will yield substantial sums to the Exchequer (the Treasury have calculated that the net present value could be worth up to £9bn); and that many

of the water authorities are themselves keen to be privatised so that they can speed up their investment in renewal of assets and serve the customers better.

Water authorities should be a firm part of the privatisation programme, and the scheme recommended by DoE/Wales/Agriculture is sound.

CM.

CHRISTOPHER MONCKTON

18 November, 1985.

P 01792

CONFIDENTIAL

PRIME MINISTER

E(A)(85)22nd Meeting:
Privatisation of Water Authorities
(E(A)(85)64)

BACKGROUND

There has so far been no specific commitment to privatisation of the water industry. There is, however, a general expectation that it is an early candidate on the government's list and Mr Hattersley singled this out for particular criticism in the Debate on the Address on 13 November.

2. The Government's public position is as follows. On 7 February 1985 the then Minister of State, Department of the Environment, Mr Gow, said in the House that he would 'be examining the possibility of a measure of privatisation in the water industry'. Following this the Department of the Environment issued a consultation paper in April, to which the water authorities, trade unions and industrial interests concerned, and others responded. This was followed by an interdepartmental official study, on which the Secretaries of State for the Environment and Wales and the Minister of Agriculture have now drawn in putting forward their paper.

Nature of Water Industry

3. In addition to the primary public service tasks of the supply of water and the provision of sewerage facilities, water authorities are responsible for water resource planning and control; river water quality and pollution control; fisheries, navigation, recreation and conservation; environmental improvements; and land drainage and flood defence. These latter functions account for only about five per cent of water authorities' total costs, but the activities, and the charges made for some of them, can have an important impact on particular individuals and businesses as well as on the environment more generally.

Case for Privatisation

4. The balance of considerations to be weighed up in reaching a decision on the privatisation of the water authorities was summarised as follows in the report by officials:

> "The benefits of privatisation are of a general character - freeing the water authorities from state control, motivating management and employees with a spirit of enterprise, increasing share ownership, and reducing the size of the public sector. But it must be noted that given the monopoly character of the water authorities in providing basic services, the scope for genuine competition does not exist except at the fringe; nor is there great scope for further efficiency improvement in most water authority operations, except where this is the result of cost - saving investment.
>
> The difficulties inherent in privatisation stem essentially from the need to deal satisfactorily with the whole range of public good and regulatory functions which go to the heart of the authorities' activities, and from the present financial situation of some of the authorities, particularly North West, South West and Wessex. The authorities' public good and regulatory functions have until now always been in the hands of accountable public bodies; the choice lies between retaining these functions in the public sector and so losing the advantages of integrated river basin management, or leaving them with the authorities when privatised, but controlled by a system of licensing and regulation which because of the scale and range of activities to be covered would inevitably be complex. For privately owned corporations to be responsible under licence for making and enforcing public policy would be to break new ground. The need to demonstrate that the public interest was being properly safeguarded points to a strong regulatory mechanism."

Proposals

5. The specific proposals put forward by the three Ministers may be summarised as follows:

(a) each of the present water authorities in England and Wales should be privatised in its entirety as a separate Water Service Public Limited Company (WSPLC);

(b) a body analogous with OFTEL should be created to regulate the WSPLCs by means of a licence. Charges to consumers would be regulated by means of some kind of RPI minus x formula; with the exception of flood defence and land drainage, the WSPLCs would retain all their present powers and functions;

(c) Ministerial responsibility for water environment policy would be retained. WSPLCs would need to seek Ministerial approval for their water resource plans, and for their own abstractions from the discharges into rivers, while a right of appeal to Ministers against the companies' decisions on abstractions, discharges, pollution charges, etc would be retained;

(d) to end the present statutory presumption that district councils will act as water authority agents for sewerage;

(e) to establish new Regional Land Drainage Committees to finance and coordinate flood defence and land drainage, with the work being contracted out as appropriate to WSPLCs or others.

6. On timetable, E(A)(85)64 proposes:

(a) a White Paper before Christmas as a basis for further consultation;

(b) legislation in the 1986-87 Session;

(c) incorporation of all water authorities as WSPLCs as soon as possible after Royal Assent; and

(d) sequenced flotation of all authorities, with one or more (in whole or part) within six months of Royal Assent.

MAIN ISSUE

7. The essential issue is whether or not to go forward with plans for the privatisation of the water authorities on the basis proposed by the three Ministers.

8. Privatisation of the water authorities is a different, and in some respects more complex, exercise than the privatisation of, say, Telecom or BGC. Partly this reflects the fact that there are ten water authorities, whose problems and activities differ widely. More substantially, however, it reflects the fact that, unlike Gas and Telecom, the water authorities are not engaged exclusively in providing a particular commodity or service to their customers on terms which reflect the customers' use of that commodity or service. Although the provision of water is closely analogous to that of gas, only a small minority of domestic consumers pay a metered charge for their water rather than what is in effect still a surcharge on local rates. The analogy is even less close for sewerage (where domestic charges are all based on local rates), and there is no real parallel between the wide range of 'public good' functions water authorities undertake, and the activities of the other privatised utilities.

9. As an alternative to privatising the water authorities as they stand, the official study also examined the possibility of restricting privatisation to the main operational functions of water supply, sewerage and sewage disposal. Under this arrangement the existing water authorities would be retained to undertake the policy and regulatory functions which may appear to be more naturally at home in the public sector, while being required to franchise out the operational activities.

Officials recommended against this, however, on the grounds that it would mean giving up the benefits of integrated river basin management, and would require an upheaval in water authority organisation which would delay privatisation for a considerable period.

Regulation

10. This is perhaps the most difficult and complex issue. Control of water and sewerage charges presents many of the same problems as control of gas or telephone charges, and the price regulation will need to incorporate a stimulus to efficiency while at the same time generating sufficient profit to support a large and expanding investment programme. Decisions will also be needed, however, on the extent of the financial regulator's responsibilities in the environmental area. The licence will require the companies to continue to fulfil the public policy functions now undertaken by the water authorities; and the question will arise how far the financial regulator should monitor their performance, given that the Government will continue to be the ultimate environmental regulator. The financial regulator will also need to be involved in determining equitable arrangements whereby the companies can recover the costs of those of their operations which do not involve the direct provision of services to consumers. Assurances will be needed that the companies will discharge their wider responsibilities (eg through pollution controls and charges) in the interests of the specified policy objectives (water quality, environmental protection, etc) rather than in the interests of their own shareholders.

Financial implications

11. The current cost value of the water authorities' assets is put at £30 billion. The authorities are currently investing £850 to £900 million a year, and an ambitious programme is under way to increase the real returns they earn on their assets, which will require substantial real increases in charges phased over a period of years. From 1987-88 onwards, current Government plans provide for the water authorities as a whole to be self financing (ie they would earn sufficient profits

to finance an annual investment programme of about £1 billion without any further borrowing). Overall there is little scope for increases in the volume of the business, or in the productivity of its assets; but there remains a large need for replacement and cost-saving investment, given the great age of much of the present infrastructure.

12. Preliminary merchant bank advice is that the WSPLCs, with these characteristics and prospects, would need to be marketed as public utility stock guaranteeing a steady real return rather than as exciting equity stocks with growth prospects. On this basis Schroders estimate the net proceeds at about £5½ billion, after allowing for meeting unfunded pension liabilities. They see the stock as yielding a premium of about 3 per cent over indexed gilts (ie a real yield of about 6 per cent a year). There must be some question about the rate at which the market would be ready to absorb stock of this kind; in the case of BGC, Rothschilds' advice has been that only 50 per cent of the shares could be sold, and at a relatively low price, if there were close price regulation over all BGC's sales. On the other hand, there is no doubt considerable scope to encourage individual householders to take up small stakes in the privatised water authorities.

13. Although no decisions need to be taken now, further consideration will need to be given to the outlook for water charges after privatisation. One possibility might be to go for less ambitious improvements in real returns on assets, and smaller increases in prices; but this would mean a continuing need for external finance, and a substantial reduction in the potential proceeds. The eventual regulatory price formula will determine the outcome.

Statutory Water Companies

14. A quarter of the population of England and Wales receive their water supplies from 30 statutory companies (which have always been in the private sector, and which were effectively under the direction of the water authorities). It would be natural for these companies to be absorbed by the WSPLCs; but seeking to achieve this through the

privatisation Bill would almost certainly present problems of hybridity. The three Ministers therefore conclude that this problem ~~will~~ have to be dealt with later.

Sewerage

15. Local authorities had responsibility for sewerage prior to 1974, and would like it to be returned to them on privatisation. In most cases sewers, though owned by water authorities, are maintained and operated by district councils on an agency basis. E(A)(85)64 recommends that WSPLCs should be free to employ local authority agents or other franchises as they choose; in practice, local authorities will no doubt continue to be employed, but they are likely to oppose this aspect of privatisation.

Consumer Consultative Committees

16. New arrangements are proposed to make these Committees independent of the water authorities who currently appoint them. A careful course will need to be steered to provide sufficient reassurance to consumers without upsetting potential investors.

The balance of the argument

17. As paragraph 2 of the annex to E(A)(85)64 makes clear, the case for privatisation rests on the reduction of the size of the public sector, the removal of Government constraints on the way the business is run, the greater incentive within the business for efficiency, and the scope for wider share ownership. Privatisation of the water authorities, however, raises a number of new issues; it would be novel to make private companies responsible for public policy functions not directly connected with the services provided to customers, and assurances would be needed that environmental objectives would be as well secured as under the present arrangements and that adequate protection would be given to industrial and farming interests against unreasonable behaviour by the privatised companies. This is likely to mean rather

complex regulation, with a substantial economic regulatory apparatus combined with a greater detailed involvement by the Department of the Environment than hitherto. Arrangements for water charges will also need to reflect the Government's decisions on changes in the financing of local authorities, whose practices the water authorities have hitherto followed. Finally, privatisation will not remove the problem that the costs of infrastructure renewal will require continuing relatively high charges; this may have some implications for the wider public perception of the impact of privatisation.

HANDLING

18. You will wish to invite the Secretary of State for the Environment to introduce E(A)(85)64. Thereafter the Secretary of State for Wales and the Minister of State for Agriculture may wish to add their comments. The Financial Secretary, Treasury will wish to speak from the standpoint of the privatisation programme as a whole, and the Secretary of State for Trade and Industry will wish to give his views on the regulatory protection of domestic and industrial consumers. You might wish to ask what was to be done in Scotland, where all the water authority functions still remain with the local authorities. The Lord President of the Council, the Chancellor of the Duchy of Lancaster, and the Lord Privy Seal may all wish to speak on the political and Parliamentary aspects of the proposals.

CONCLUSIONS

19. You will wish the Sub-Committee to reach conclusions on the following matters:

1. Whether to press ahead with plans to privatise the water authorities broadly in the way and within the time scale proposed in E(A)(85)64; and

2. Whether any further specific guidance should at this stage be given for the follow-up work on -

(a) the discharge of continuing Ministerial responsibility for water environment policy;

(b) the retention of flood defence and land drainage as direct public sector responsibilities;

(c) the role of district councils in relation to sewerage;

(d) aspects of economic and environmental regulation; and

(e) questions related to the financial structure of the privatised companies and the terms of the offer for sale.

J B UNWIN
Cabinet Office.
18 November, 1985

11SS25

CONFIDENTIAL

1

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

NBPM at this stage

FROM THE SECRETARY OF STATE

25 September 1985

Dear Miss Bogan,

REVIEW OF PRIVATISATION PROSPECTS FOR THE NEXT PARLIAMENT

In accordance with the request in your letter of 1 July, my Secretary of State has made a far-reaching review of the possibilities for privatisation in his area of responsibility.

This area consists in the main of the provision of services by local education authorities or other public or near-public bodies mainly through the use of public funds. These services are of a nature which provides very little scope for public floatations, employee buy-outs, or large trade sales. As you know, my Secretary of State has been encouraging a great financial independence for the universities with less reliance on public funds. For the present exercise, he has considered the possibility of privatising the current public arrangements for educating children below the compulsory school age. Such education is undertaken by the private sector on a substantial scale in some other countries and to a limited extent in England. He has however concluded that the existing public provision does not lend itself to privatisation. About half of it consists of provision in infant classes for children aged 4 and uses spare capacity within the facilities provided for the compulsory period. The other half is nursery education which is provided mainly for educationally disadvantaged children whose families are unlikely to be able to meet the fees chargeable by private nursery schools.

However since most of the Department's expenditure programme consists of local authority services, there is scope, in relation to school meals and cleaning, for competitive tendering and an element of privatisation through the proposals for contracting out noted in the DES letter of 5 August. My Secretary of State hopes very much that early progress can be made with the necessary legislation.

/In the

Miss F P Bogan
Assistant Private Secretary to
the Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1P 3AG

CONFIDENTIAL

CONFIDENTIAL

In the civil science field, my Secretary of State is now examining with Mr Jopling a proposal for privatisation in the plant breeding area. But the outcome is not sure and my Secretary of State doubts whether the scale of the proposal is large enough to merit inclusion in this exercise. We shall be considering whether the principles involved can be applied to other science areas.

I am sending copies of this letter to the Private Secretaries of other Members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

Robert Smith.

R L SMITH
Private Secretary

ECON Pol: Privatisation
Pt 12

cc NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM
DHW
4/9

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

4 September 1985

Dear Nigel

Thank you for your letter of 30 August about the privatisation programme.

I agree that for the reasons you mention we ought, regrettably, to conclude that it will not be possible to privatise BA before the end of the current financial year and I am happy for you to announce the substitution of another privatisation.

My only concern relates to the line which you propose we should take in dealing with enquiries about the implications of this announcement for the timing of BA privatisation. There is a danger that we will be accused of dragging our feet now that the Laker/Lonrho law suits are disposed of. I think we can avoid this by giving a slightly more positive emphasis to the press line which you suggest. I propose to say that, while a date cannot be set until all the legal issues arising out of the failure of Laker Airways, including the class actions, have been resolved, we intend to sell BA as soon as is practically possible in the next financial year.

I am sending a copy of this letter to the Prime Minister.

Yours ever

Nicholas

NICHOLAS RIDLEY

ECON POL: Privatisation: Pt 12.

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 26/3/3L

30 August 1985

Dear Norman

Many thanks for your letter of 31st July responding to mine of 30th May on the options for the privatisation of Vickers Shipbuilding and Engineering Limited (VSEL).

I am glad to note that British Shipbuilders and Lazards have now been able to devise a method of privatising VSEL which offers the prospect of significantly enhancing the proceeds from the sale, and avoids the difficulties involved in a Government acquisition and leaseback of the assets created by the Shipbuilding Facilities Project or, indeed, in the alternative which I suggested of the retention of a Government shareholding. I note too your reluctance to rule out the leasing option at this stage. But the fact remains that the PES provision required to support the leasing option has not been made. It is to be hoped, therefore, that British Shipbuilders and Lazards pursue the revised plan with vigour and successfully.

I am copying this letter to the Prime Minister, the Chief Secretary to the Treasury and to Sir Robert Armstrong.

Yours ever

Michael

Michael Heseltine

The Rt Hon Norman Tebbit MP

Privatisation: Econ. Pol,

PG12

2155/21

CONFIDENTIAL

Cc NO.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit Esq MP
The Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

16 August 1985

NBPM

Dear Norman,

PRIVATISATION OF VICKERS SHIPBUILDING AND ENGINEERING LTD

I have seen your letter of 31 July to Michael Heseltine with proposals for handling the sale of VSEL.

I agree that we should not commit ourselves at this stage to any specific option for dealing with bids for VSEL which might be thought to be too low. I also note that you would be reluctant to rule out a leasing option at this stage. Such an option would be very unattractive from a public expenditure point of view as it both reduces proceeds and increases Government expenditure in the period following the sale. I should be surprised if when the time comes for a decision we do not find that other options are preferable.

I am sending copies of this letter to those who received yours.

Yours ever
John

JOHN MOORE

CONFIDENTIAL

Privatisation: Econ Pol. A12.

CONFIDENTIAL

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Mrs J R Lomax
Private Secretary to the Chancellor
of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1Q 3AG

8 August 1985

NBPM

Dear Ms Lomax

REVIEW OF PRIVATISATION PROSPECTS

Miss Bogan's letter of 1 July outlined the information which should be provided to the Chancellor of the Exchequer following the review of prospects for privatisation during the next Parliament.

It has already been agreed that consideration of privatisation of the Scottish Bus Group should be deferred until the results of privatisation of NBC can be assessed; and MacBrayne Haulage Ltd is in the course of being sold.

The only other possible candidates within my Secretary of State's responsibilities are the Scottish Electricity Boards. My Secretary of State is of the view that it would be unwise to contemplate privatisation of the Scottish Boards separately from the electricity supply industry in England and Wales.

I am sending a copy of this letter to the Private Secretaries of the Ministers in the Cabinet and to Sir Robert Armstrong.

Yours sincerely

D. Lamberton

MISS D LAMBERTON
for Private Secretary

Policy towards Privatisation: ECON POL.
Pt 12.

CCND

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

CONFIDENTIAL
From the Minister's Private Office

Miss F P Bogen
Assistant Private Secretary
to the Financial Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

NSTL

8 August 1985

Dear Frances

REVIEW OF PRIVATISATION PROSPECTS FOR THE NEXT PARLIAMENT

Thank you for sending me a copy of your letter of 1 July to Andrew Turnbull about the above review.

I am enclosing the information in the form you required on the main candidate we have for privatisation, the National Seed Development Organisation. In addition you may wish to be aware that the sale prospects for Market Towers, which is owned by the Covent Garden Market authority, and was mentioned in the Privatisation Programme (E)(A) (85)26) will be reviewed again in the autumn.

You should also note that my Minister would not rule out the possibility of further privatisation of the Forestry Commission's forestry enterprise, as part of the outcome of the discussions recently initiated by the Prime Minister on the implications of CAP price restraint for land use and population in rural areas. This could not be undertaken during the lifetime of the present Parliament. The Minister feels that it would be wholly unwise however to introduce a further tranche of forestry enterprise privatisation in isolation, when the controversy over the previous sales programme has scarcely yet settled. However, if the Government were to decide to introduce major new policies to stimulate the farm woodland and commercial forestry sectors, further privatisation of the Forestry Commission's estate might sensibly form part of a package of forestry measures. The question will need careful consideration by Forestry Ministers, but the Minister thinks that it is worthy of mention at this present juncture.

I am copying this letter to private secretaries to other members of the Cabinet and Sir Robert Armstrong.

Yours sincerely

for C I LLEWELYN
Private Secretary

CONFIDENTIAL

REVIEW OF PRIVATISATION PROSPECTS

1. Name of Candidate

National Seed Development Organisation

2. Key data

Markets plant varieties developed with Government monies.

Year to 30 June 1984:

Post-tax profit	£1,098,314
Turnover	£7,702,219
Total assets less current liabilities	£1,689,741
Employees - 62 (including part-timers)	
Payments to Government (excluding tax)	
Dividend	£1,000,000
Royalty share	£2,634,785

3. Present position

Possible options for the future of NSDO are being studied but no decision has yet been taken on whether or not the Organisation should be privatised.

4. Next steps

The decision referred to in (3) is dependent on other decisions about the future level of Government funding of plant breeding and the means of injection of private funds into plant breeding at Government research institutes.

If Ministers decide to privatise NSDO the next step will be to appoint merchant bankers to offer preliminary advice.

5. Need for legislation

Not required.

6. Possible timescale for privatisation

Depends on form in which NSDO is sold.

7. Estimated receipts

Not known. Will depend on form in which NSDO is sold.

Ecn Pol A 12
Privatisation

DM/T71

cc MO

Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6460
Switchboard 01-213 3000

NSPM.

Frances Bogan
Private Secretary to the
Financial Secretary to the Treasury
HM Treasury
Great George Street
LONDON SW1

7th August 1985

Dear Frances,

REVIEW OF PRIVATISATION PROSPECTS FOR THE NEXT PARLIAMENT

Thank you for sending me a copy of your letter of 1 July to Andrew Turnbull about the above review.

My Secretary of State has reviewed the scope for privatisation within his responsibilities and has concluded that we have no candidates of the scale which you envisage.

I am copying this letter to the private secretaries of Members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

Iain Mackinnon

IAIN MACKINNON
Private Secretary

Privatisation.
Econ Pol.
Pt 12

PI

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

6 August 1985

N 8/4

Dear Miss Bogan

We spoke on the telephone about Sue Vandervord's letter of 5 August to you.

I am writing to confirm that the rate of sales of council houses to tenants is running at more than 100,000 a year (and not 10,000 as recorded in Miss Vandervord's letter). I would be grateful if this correction could be made.

Copies of this letter go to the recipients of your earlier letter of 1 July.

Yours sincerely

J Ballard

J BALLARD
Private Secretary

Miss F P Bogan
Private Secretary to the
Financial Secretary to the Treasury

EEL

Bc: Nick Owen

10 DOWNING STREET

From the Private Secretary

5 August 1985

Dear Richard,

COMPETITIVE TENDERING BY
GOVERNMENT DEPARTMENTS

The Prime Minister has seen the Chief Secretary's minute of 31 July reporting on progress made in increasing the proportion of services subject to competitive tendering. She has noted that nearly half of the specified services have been contracted out though this has produced savings of only around five per cent of the total cost of these services. She welcomes the steps being taken to carry this initiative forward.

I am copying this letter to Private Secretaries to Ministers in charge of Departments, and to Richard Hatfield (Cabinet Office) and Sir Robin Ibbs (Efficiency Unit).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)

Richard Broadbent, Esq.,
H.M. Treasury.

MANAGEMENT IN CONFIDENCE

SRW

PI

CONFIDENTIAL

CONO

NBPM

AT

5/8

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

5 August 1985

Dear Miss Bogan

You wrote on July 1st asking us to identify major privatisation candidates. Our privatisation efforts have been some of the most fruitful in this Parliament and the last. My Secretary of State foresees both very substantial results during the next Parliament from what we have already set in train, and some major further possibilities. However, apart from water authorities, they do not fit into your categories of public flotations, employee buy-outs or major trade sales. I have therefore listed them below with short descriptions only.

Water Authorities

Your Department is up to date with the examination of the prospects for privatisation within the water industry. This will be considered by E(A) in the near future as a subject in its own right. If we decide to go ahead, the necessary legislation should be ready for the 1986/87 Parliamentary Session.

Housing

Housing will continue to be a major area for the rolling back of the public sector. Sales of council houses to tenants are running at a rate of more than 100,000 a year. We are also looking at the scope for further transfers of public sector housing into the private sector; this is one of the tasks of the Urban Housing Renewal Unit.

New Towns

Over the span of the next Parliament we expect to wind up all the New Town Corporations. Receipts to the Exchequer from the flow of disposals will continue, possibly at £50-60m a year during the next Parliament.

CONFIDENTIAL

Urban Development Corporations

London Docklands Development Corporation is the first to show signs of maturing into a commercial success; but whether the major disposals flow will come in the next Parliament or the one after is not clear.

Local Authority Contracting Out

This is as much about introducing the disciplines of competition into the public sector as it is about privatisation. Much of the benefit secured by our legislation on direct labour organisations has come from improvements in in-house cost effectiveness under the pressure of outside competition. This may prove to be the case under the proposals which we have made public to extend compulsory competition to such activities as refuse collection, cleaning, school meals, grounds maintenance and vehicle maintenance. The result in private sector turnover increase will be cumulative, particularly if, as we anticipate, we introduce competition gradually within and between individual activities. But with total expenditure on the five activities we have listed running at something like £2bn per annum there is likely to be a significant impact; there could also be an appreciable transfer of assets (equipment, depots etc) in some authorities.

Others

We expect a wide range of other privatisation initiatives in DOE (though none in PSA). For example, private participation is being considered for the major national sports facilities owned by the Sports Council, for aspects of building research work, etc. I assume that these are outside your present enquiry.

Copies go to recipients of your letter.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

Miss F P Bogan
Private Secretary to the
Financial Secretary to the Treasury

Privatisation;
Pelon Pol.
PtR.

Prime Minister ①
Agree a response as at X ? AT 2/8

MANAGEMENT IN CONFIDENCE

MR TURNBULL

Yes

2 August 1985

COMPETITIVE TENDERING BY GOVERNMENT DEPARTMENTS

The Chief Secretary has reported on progress.

Measured in terms of the proportion of those services which has been contracted out, (46% of all Departmental catering, cleaning, laundry, maintenance, and security guarding), progress is encouraging. We have saved 21,000 posts, worth about £200 million per year. Why then have we saved only £20 million net - a sum which is less than 5% of the total costs of these services, and around 10% of the staff savings?

Two possible reasons are, first, that contracting out is not the same as arms-length competitive pricing. All contracts will be tested in the market by 1987 and this should generate more savings. The second reason is that Departmental overheads have not been reduced in line with staff reductions. Work is in hand to release office space.

Departmental performance is patchy. MoD contract out none of their maintenance, one half per cent of their security guarding, and 5% of their catering. They wish to avoid use of outsiders in secure buildings. But why can MoD contract out 95% of its cleaning, which must also involve outsiders?

Treasury are alive to these points and will be pursuing them. I suggest, therefore, that the Prime Minister might reply along the lines:

1. Encouraged that nearly half of the specified services have been contracted out.

2. Noted that this has yielded net savings of less than 5% of the total cost of these services.

3. Hopes that detailed comparisons of departmental practice will reveal ways of contracting out more, particularly in catering, and of securing greater savings.

NICHOLAS OWEN

FROM: CHIEF SECRETARY
DATE: 31 July 1985

PRIME MINISTER

USING PRIVATE ENTERPRISE:COMPETITIVE TENDERING BY GOVERNMENT DEPARTMENTS

See A 11

In my minute of 14 January, I proposed further measures to increase competitive tendering for work from government departments to the private sector, and to make market testing mandatory for certain specified services. I undertook to report progress in the summer. Cabinet colleagues were content with the proposals; and your private secretary's letter of 26 February expressed your hope that departments would extend as widely as possible the range of services to be tested against the market. You asked for my report to identify the savings being made.

2 The new initiative was announed by Barney Hayhoe in the House of Commons on 4 March during a debate on public expenditure. He made it clear that departments would continue to ensure that as much work as possible is subject to competition, that they would be taking every opportunity for competitive tendering, and that departments' top management systems would provide a means of identifying suitable areas. He went on to list the five services for which market testing is now mandatory - cleaning, laundry, catering, security guarding (subject to Cabinet Office guidance,)and some kinds of maintenance work.

3 Following Barney Hayhoe's announcement, detailed guidance was sent to departments; and they have now drawn up plans to subject most of the specified services to competitive tendering by April, 1987. Arrangements have been made for departments to exchange information and to share experience.

4 It will be some time before we can assess the effect of the new policy, but I hope that my next report will be able to show that good progress has been made. Competitive tendering should be a most important source of economies in departments' running costs. To keep up the pressure I think it would be helpful for us to mount a multi-departmental review of competitive tendering in Government departments, and my officials are discussing this with the Efficiency Unit. The terms of reference will need to be drawn up carefully, but a review could tell us how vigorously the policy is being operated, help to satisfy us that it is giving value for money, and ensure that it is being applied as widely as possible, as well as sensibly and efficiently, by departments. It could also pick out other services that might be added to the list for mandatory market testing.

5 Annex A shows the amount of contracting out at the end of the last financial year (1984-85) on each of the five main services. Out of total expenditure of some £378 million, an estimated £176 million (46 per cent) was contracted out at the end of that year. Progress on contracting out cleaning and maintenance was good; and satisfactory on laundry. The extent to which security guarding and catering had been contracted out is disappointing, but security considerations and other constraints mean that much of this work may have to be retained in-house. For example, although nearly half of the Services wide expenditure on security guarding is incurred by MOD, the contraints of defence security limit the use of competitive tendering in this area. Similarly, the practicalities of security and other operational contraints limit the extent to which catering in MOD establishments and Home Office prisons can be tested against the market.

6 Net savings between April 1979, and April 1984, on those services awarded to outside contractors amounted to an estimated £20 million per year. The net savings resulting from contracting out in 1984-85 are estimated at a further £2 million per year. Staff savings resulting from contracting out since 1979 are some 21,000 posts; and there have been unquantifiable benefits from the spur to efficiency which competitive tendering gives.

7 I am sure that we should be doing better than this, and that our new initiative should begin to show results soon. But it will only do so if Ministers in charge of departments take this forward vigorously. I urge them to do so.

8 My previous reports to Cabinet have also covered the remainder of the public sector. Annex 'B' summarises the current position in the National Health Service and in Local Authorities. Clearly, there is scope for faster progress. The position in the NHS was discussed at your meeting on 'Health Policy' with Norman Fowler and others on 22 July; the point was made that competitive tendering could contribute a good deal more annual savings than has been achieved so far. In the case of local authorities, the work of the Audit Commission demonstrates that there are still large efficiency savings which could be made. Our policy of competitive tendering by local authorities is a helpful spur to efficiency. The position on nationalised industries is as reportd last year; our long term objective is, of course, full privatisation.

9 I will report next year on progress made during the current financial year.

10 I am copying this to Cabinet colleagues, Ministers in charge of departments, Sir Robert Armstrong and Sir Robin Ibbs.

PR

PETER REES

006-700

ANNEX 'A'

CONTRACTING OUT OF SPECIFIED SERVICES BY GOVERNMENT DEPARTMENTS

SERVICE	TOTAL COST £000	CONTRACTED OUT £000	CONTRACTED OUT Percentage
Catering - prisons & MOD	108,008	4,527	4.2
- other depts	6,916	4,548	65.8
Cleaning	69,194	58,404	84.4
Laundry	11,318 Ø	8,306	73.4
Maintenance	116,087	94,919	81.8
Security Guarding	66,478	4,998**	7.5
TOTALS	378,001	175,702	46.5

NOTES

Ø Includes cost of prison laundries (£3m).

** Property Services Agency custodian services treated as in-house (£8m).

ANNEX 'B'

CONTRACTING OUT AND COMPETITIVE TENDERING PROGRESS IN THE NATIONAL HEALTH SERVICE AND IN LOCAL AUTHORITIES

National Health Service

Most health authorities have for some time used commercial contractors to a limited extent to provide support services such as building, vehicle and equipment maintenance; security services; ground maintenance; transport services; and some laundry services. But before the present initiative very few let domestic cleaning contracts and only one hospital had a full catering contract. The total NHS expenditure in England on contracting out in 1983-84 was £207 million.

In September 1983 the Government issued a circular to health authorities asking them to test the cost-effectiveness of their domestic services, catering, and laundry services by submitting them to competitive tender to find out whether savings could be made and resources released to improve care of patients. These services cost over £950 million in 1983-84. Authorities were also asked to continue to develop the use of contractors for other support services where appropriate.

Most health authorities are now making progress in meeting the circular's requirements. Some 60 contracts now let to contractors will save £10.4 million a year. In a further 55 cases where the work has been awarded in-house a further £2.7 million a year will be saved. This makes total savings so far of £13.1 million a year.

In their report on Public Expenditure on the Social Services the Social Services Committee (SSC) implied that the £13m so far saved through contracting out was insignificant when compared with the overall size of the budget. The Committee may not have appreciated that the contracting out process

is far from complete, and that further savings are still to materialise from the present initiative.

The savings may be further enhanced as further rounds of tendering encourage the development of the private sector. Equally importantly the Committee also overlooks the incentives that competitive tendering gives to provide an improved service, and the more tangible benefits this brings.

Local authorities

Local authorities are required under the Local Government Planning and Land Act 1980 to go out to competitive tender for a substantial proportion of their building and maintenance work. The present DLO regime appears to be having a significant effect on local authority cost effectiveness in the fields of construction, highways and maintenance. But it does, however, appear that the major effect has been to sharpen the cost effectiveness of in-house management rather than to achieve any major transfer of work to the private sector. Figures recently available show that there has been only a very slight increase in the proportion (to 58%) of relevant work carried out by the private sector in 1982/83 when compared with 56% in 1981-82. (This updates the figure for contracted out work of just over 60% previously assumed for 1982-83). Action has now been initiated against four authorities whose construction DLO's have failed to achieve the required rate of return on capital in three successive years. The momentum of voluntary contracting out of services, e.g refuse collection and cleaning, appears to have slumped, with only two new refuse collection contracts report in 1984/85.

Following Cabinet approval last October a consultation paper was issued on 14 February setting out proposals for extending competitive pressures to a further range of local authority activities, for banning irrelevant conditions in local authority contracts or tender lists, and for taking stronger

powers to act against abuses of the competitive process which are aimed at unfairly protecting direct labour organisations. Local authority responses have been predictably hostile to the principle of compulsion. Also there has been much comment on the more practical problems foreseen (in spite of the work of the Audit Commission which shows that there are still large efficiency savings to be made by Local authorities - the pressures of competitive tendering could bring them about). It was originally thought that legislation would be taken in the next Session to carry through the consultation process. But pressures on the legislative timetable has made this impossible. It has however been decided to include legislation to ban irrelevant conditions of contract and tender in the Local Government Bill scheduled for the 1985-86 Session.

Privatisation Pt 12

FROM THE PRIVATE SECRETARY

NBPM
AT 1/8

CC NO

HOUSE OF LORDS,
LONDON SW1A 0PW

31st July, 1985

CONFIDENTIAL

Andrew Turnbull Esq.,
Private Secretary to
The Right Honourable
The Prime Minister,
10 Downing Street,
London,
SW1.

Dear Andrew,

Review of Privatisation Prospects for the next Parliament

Thank you for your letter of 1st July about privatisation prospects for the next Parliament. The Lord Chancellor answers not only for his own Department, but also for the Northern Ireland Court Service, Land Registry and Public Record Office. The work of these Departments offers limited scope for privatisation and in those areas where it seems appropriate we are already pursuing the possibility. But we have no candidates to offer on the scale you are canvassing.

I am copying this letter to the Private Secretaries of Ministers in the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

Helen Tuffs.

Miss H.E. Tuffs

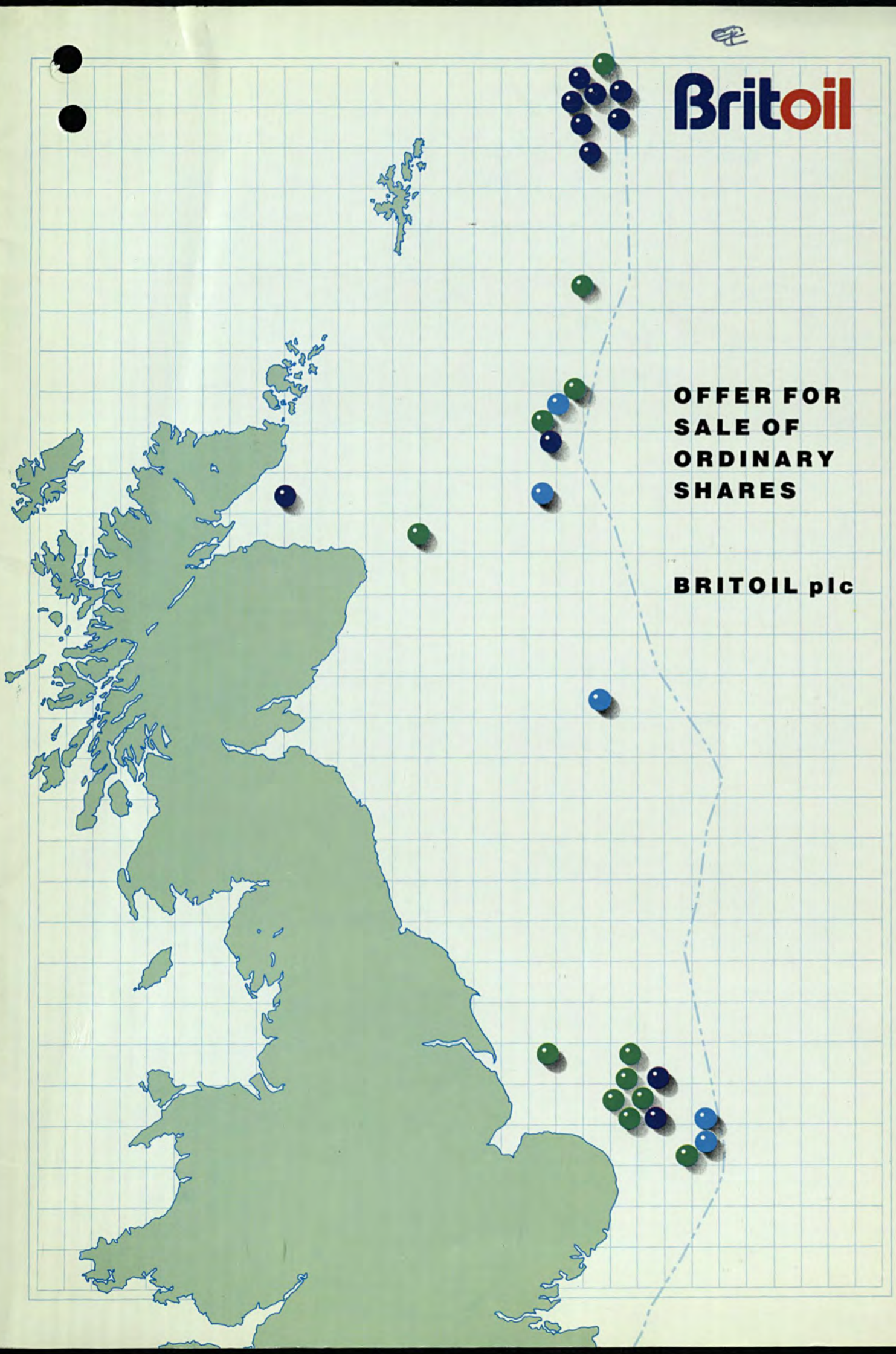
Econ Pol: Privatisation Pt 12

10 DOWNING STREET

Prime Minister (2)

A price of 185p has been agreed yielding £449 million for the Exchequer before deduction of issue expenses.

AT
30/7



Britoil

OFFER FOR SALE OF ORDINARY SHARES

BRITOIL plc

DIRECTORS

Executive Directors
Sir Philip Shelbourne, Chairman
David Bruce Walker, Chief Executive
Ian Robertson Clark, CBE, Managing
George Malcolm Ford, CBE, Managing
Jeremy David Agard Evans
Patrick Michael Donovan Kelly
Sir Albert Thomas Lamb, KBE, CMG, DFC
Robert Speirs

Non-Executive Directors
Sir Kenneth Corfield
John Alfred Lofthouse, OBE
Sir Donald Maitland, GCMG, OBE
Ralph Nicholas Quartano
Lawrence Victor Dolman Tindale, CBE

Secretary: Robert Colin Milligan

Britoil interests worldwide

Note:
All maps are provided for broadly illustrative purposes only and should not be relied upon as giving exact information

CONFIDENTIAL

MBPM 31/7 cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW317
Secretary of State for Trade and Industry

31 July 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

Dear Michael,

PRIVATISATION OF THE WARSHIP YARDS : THE SUBMARINE FACILITIES PROJECT AT VICKERS SHIPBUILDING AND ENGINEERING LTD

In your letter of 30 May on this subject you explained that you were not attracted to the idea that the Government should lease the new Submarine Facilities at Vickers Shipbuilding and Engineering Ltd (VSEL) to the new owners as a means of overcoming and presentational difficulties which could arise if the sale proceeds from VSEL were conspicuously less than the public money invested in the Submarine Facilities Project (SFP). You suggested instead that the Government might retain a shareholding commensurate with the shortfall.

2. My officials therefore asked British Shipbuilders (BS) and their financial advisers, Lazards, to see if an idea on these lines could provide a solution. Their conclusion, with which my own financial advisers agree, is that a more attractive variant would be a profit sharing arrangement. Officials from here, MoD and Treasury discussed this at a meeting with BS and Lazards last week. It was agreed that the best way of tackling the problem would be a two stage approach:

(i) bids should be invited for the purchase of VSEL and Cammell Laird on the basis of documents to be issued in September without mentioning any special arrangement for dealing with the SFP or for any anticipated "shortfall" in the sale proceeds;

CONFIDENTIAL

999-1

(ii) if we judge those initial bids to be embarrasingly low, BS and Lazards will suggest to purchasers that they might raise their effective price by agreeing to some kind of profit sharing arrangement under which BS would receive a share of any profits (possibly confined to profits on non-competitive submarine contracts for MoD) in excess of defined levels (in Lazards' example, BS would receive some £38m between 1898 and 1996 on the basis of present profit forecasts).

3. Such an approach if successful could clearly lead to significant further proceeds and would not have the disadvantage of falling short of our original intentions of complete privatisation (as would be the case for both the leasing option and the retention by the Government of a share-holding). Nor is it likely to be financially less attractive than either of the other options.

4. But I must warn that we cannot be sure at this stage that BS and Lazards will be able to persuade a purchaser to go down this route. Much will depend on whether there is competition for VSEL and how keen potential purchasers are to acquire it. We may well find that a purchaser will prefer some other option, not excluding the possibility of a leasing arrangement for the SFP. While BS and Lazards will discourage potential purchasers from pursuing the leasing option, I am reluctant to rule it out altogether and we may have to reconsider it in the autumn in the light of developments. My officials will continue to keep closely in touch with yours and Treasury officials as the sale proceeds.

5. I am copying this letter to the Prime Minister, the Chief Secretary and to Sir Robert Armstrong.

Yours

NORMAN TEBBIT

Econ. Pol : Privatisation P+12

Britoil file

H M TREASURY

OFFICE NOTICE

ON(GENERAL)(85)70

26 July 1985

PURCHASE OF SHARES IN BRITOIL

The Government's 49% shareholding in Britoil, which was privatised in November 1982, is held by HM Treasury. As you may be aware a sale of virtually all this shareholding is, subject to market conditions, intended to go ahead at the end of this month. Shares will be offered directly to individuals. I would therefore like to remind you of the rules about Treasury staff buying and dealing in shares.

2. These rules are attached. Applied to Britoil they mean there are two things you must not do. You must not buy or deal in Britoil shares if you have, or could be regarded as having, special knowledge affecting the value of the shares. And you must not buy or deal in Britoil shares if your work involves you in Government decisions (such as the award of offshore licences) affecting Britoil's business.

3. There are some people whose position in the Treasury clearly makes it wrong for them to buy Britoil shares, because to do so could give rise to public criticism. I have so advised them separately. If you have not received that separate minute you must still consider whether it is proper for you to buy Britoil shares, but there is no prima facie reason that we can see why you are not free, like any member of the public, to do so or not as you wish. Brian Fox or I will be happy to discuss any particular circumstances which may not be clear. But in a matter of propriety like this, if you yourself have any doubt then the right course is not to buy.

JOAN KELLEY

CIVIL SERVICE PAY AND CONDITIONS OF SERVICE CODE (Extracts)

General Principles of Conduct

9870 ....b a civil servant must not subordinate his duty to his private interests, neither is he to put himself in a position where his duty and his private interests conflict and he must not make use of his official position to further those interests;

(c) though the State is in general not concerned with its servants' private activities, they must not be as might bring discredit on the service; for example heavy gambling and speculation are to be avoided, particularly in departments which have access to information which could be transmitted for gain;

(d) the high standard which the Service sets itself goes beyond the normal standards of personal honesty and integrity; the civil servant must not only be honest in fact, but also he must not lay himself open to suspicion of dishonesty....

Shareholdings

9874 There is no objection to civil servants holding private investments. If, however, a shareholding might raise a question of possible conflict with the interests of the officer's department the officer should consult his Establishment officer about the desirability of acquiring it or retaining it.

9875 Under the provisions of the Companies Act 1980, it is an offence for an officer who has obtained information in official capacity which, if known on the market, would be likely materially to affect the price of securities in a company, either to deal in any relevant securities, to procure such a deal, or to impart information which might facilitate such a deal. Any officer who has doubt about his position should consult his Establishment Officer.

TREASURY HANDBOOK (Extract)

C3 BUSINESS ACTIVITIES

Shareholdings

3.2 There is no objection to your holding private investments. Particular care should, however, be taken to ensure that dealings in stocks or share do not leave you vulnerable to the charge of trading on information which has come to you in the course of your official duties. If your shareholding might raise a question of possible conflict of interest, you should consult the Deputy Establishment Officer.

CONFIDENTIAL

NBPM CCNO
AT 25/7

Foreign and Commonwealth Office

London SW1A 2AH

26 July, 1985

Dear Miss Bogan,

Review of Privatisation Prospects for the Next Parliament

Thank you for sending me a copy of your letter of 1 July to Andrew Turnbull about the above review.

Neither the FCO (Diplomatic Wing) nor the ODA has any major candidate for privatisation for the next Parliament.

I am copying this letter to the recipients of yours.

Hard and budget
G N Geldof?

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

Miss F P Bogan
HM Treasury

CONFIDENTIAL

Econ Pol Pt 12
Privatisation

NBPM
AT 26/7

~~cc~~ NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

DW287

Secretary of State for Trade and Industry

25 July 1985

RESTRICTED
MANAGEMENT IN CONFIDENCE

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Michael,

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

File with AT.

Thank you for sending me a copy of your minute of 16 July to the Prime Minister.

2. I am content for you to announce our decision in principle to press ahead with the introduction of commercial management at the Royal Dockyards. Without seeing a draft of your proposed statement I do not know exactly what you have in mind to say. But I would be very reluctant to see anything said about the direct appointment of individuals to the Devonport Company until we have had an opportunity to consider collectively the details of this new and controversial proposal. I should also wish to see in the statement assurances that there will be regular and proper competitions for the management contracts; that tenders will be sought from the private sector as well as the Dockyards for as much MoD work as possible; and that the Dockyards will not be permitted to compete unfairly with the private sector for non-MoD work.

3. Peter Rees will want to comment on the issue of a PES transfer in connection with pensions provision, but for my part I

/would ..

999.1

would not wish to see anything decided now which might have repercussions on the PES position more widely and my own interests in it.

4. I am copying this minute to the Prime Minister, other E(A) colleagues and Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

NBPM
AT
25/7

CC NO

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

24 July 1985

Dear Miss Bogan

REVIEW OF PRIVATISATION PROSPECTS FOR THE NEXT PARLIAMENT

Thank you for copying to me your letter of 1 July to Andrew Turnbull about privatisation.

My Secretary of State has reviewed the scope within his responsibilities for privatisation in the course of the next Parliament and has concluded that there are no specifically Welsh candidates for inclusion in next session's privatisation programme.

I am copying this letter to the Private Secretaries of Ministers in the Cabinet and to Sir Robert Armstrong.

Yours sincerely

pp. PAUL SKELLON

Miss F B Bogan
Assistant Private Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

VM48

CONFIDENTIAL

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

23 July 1985

Geoff Dart Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Dear Geoff,

BRITOIL SHARE SALE

As you know, the Government's plans for disposing of it remaining shareholding in Britoil are well advanced. The preliminary prospectus was published on 12 July and we now expect the Offer to go ahead at the end of the month, subject to market conditions, with application lists closing early in August.

With the date of the Offer so close, we clearly need to control tightly the release of any information about or affecting Britoil. For this reason, we must ask that no public announcements or statements should be made before the Offer closes without prior clearance with the Treasury.

The advice governing the purchase of Britoil shares by Ministers broadly follows that given for the BT and BAe issues. There are two key issues: whether it is proper for Ministers to purchase shares in the Britoil Offer and, secondly, what constraints, either legal or of propriety, apply to holding Britoil shares.

On the first question, Treasury Ministers are clear that they should not purchase shares in the forthcoming Britoil Offer. Otherwise, they could face a conflict between their personal interest in the outcome of the Offer and their direct or indirect responsibility for decisions which would affect the Offer.

The position is less clear cut in the case of Ministers who are not directly concerned with the Britoil Offer. But they will want to be guided by the principle laid down in "Questions of Procedure for Ministers" that Ministers "must so order their affairs that no conflict arises, or appears to arise, between their private interests and public duties".

Ministers will find specific guidance in paragraphs 72 and 73 of "Questions of Procedure". Paragraph 73 states that Ministers should "scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities". Although many Ministers will not have had access to detailed information about Britoil, there is of course a danger that they may be thought to have access to inside knowledge. They may therefore conclude that the safest course would be for them not to subscribe to the Offer.

As far as the subsequent holding of Britoil shares is concerned, the issues are very like those which would apply to the holding of any securities. The broad legal position is quite straightforward:

(i) it is a criminal offence (insider dealing) for a Crown servant (ie a Minister or civil servant) who has, because of his position, price sensitive information about a company's securities, to deal in them on the Stock Exchange (here or abroad) unless he can prove he did not intend to take advantage of the information;

(ii) a shareholding in Britoil may lead to bias - for example, if Ministers (or civil servants) are involved in awarding North Sea or onshore production licences. Bias invalidates administrative acts and may well found an action in damages against the Crown.

The advice contained in "Questions of Procedure" is relevant here, too. Ultimately, Ministers must decide for themselves whether it would be appropriate in their circumstances to consider purchasing Britoil shares but they will want to bear in mind that it is as important to avoid the appearance of conflict of interest as to avoid actual conflict.

I am copying this letter to the Private Secretaries to all Cabinet Ministers, to Alex Galloway (Paymaster General's Office) and to Murdo Maclean (Chief Whip's Office) (with the request that they copy it to all Ministers in their Departments, as appropriate) and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

mincing words, that one of the root causes of football crowd disorder and complete lack of respect for authority is the lack of discipline in the home and definitely in the schools? If that is accepted, would it not be sensible, for once, to defy the conventions of Europe and reintroduce corporal punishment into our schools to try to restore order and discipline to this country?

Sir Keith Joseph: I agree with my hon. Friend's objective but I do not quite share his self confidence in the diagnosis.

Mr. Robert Maclennan (Caithness and Sutherland): Does the Secretary of State not agree that the freedom of parental choice in these matters, which was secured by the European Court, should not be put in question by any further decision of the Government about the right of petition to the Commission which the Government will have to take in the next Session of Parliament? Will he give a guarantee that whatever may be the Government's views about renewing the right of individual petition, he will bring the law of this land into conformity with the judgment of the European Court?

Sir Keith Joseph: If we did not accept such an obligation, we would not have introduced the Bill and I would not have spoken of deciding which option we should follow next Session.

Mr. Eric Forth (Mid-Worcestershire): Does my right hon. Friend agree that the whole episode is a tribute to the wisdom of the other place, and that the role played by the Upper House in our constitution has been more than amply fulfilled by this excellent example? Therefore, will he give very long and careful thought before introducing any other Bill which could run into the same common sense in the Upper House?

Sir Keith Joseph: I say yes, with qualifications, to the first part of my hon. Friend's question, but I can agree with the second part.

Mr. Reg Freeson (Brent, East): In all seriousness, is it not a sad commentary on Britain, which has such a proud record of civilised values and standing, that almost alone among west European countries we should still be debating this issue? Why does not the right hon. Gentleman introduce a one clause Bill to abolish corporal punishment, and fall in line with all other civilised practices?

Sir Keith Joseph: That would run against the views of a substantial minority of parents and teachers, and I think that this House should hesitate before encouraging the Government to do that.

Mr. Peter Thurnham (Bolton, North-East): Does my right hon. Friend agree that his job would be much easier if we gave six months' notice to leave the EEC?

Sir Keith Joseph: My hon. Friend's comment would be more suitably addressed to my right hon. and learned Friend the Foreign Secretary, but I have heard it.

Mr. Harry Greenway (Ealing, North): Does my right hon. Friend accept that the vast majority of parents and teachers are opposed to the abolition of corporal punishment, particularly until suitable alternatives have been thought out? Will he resist Labour and Liberal party pressure which is designed to take us to a Swedish situation in which five-year-old children are encouraged to take their parents to court for smacking them?

Sir Keith Joseph: There is ample evidence from this short debate that the differences of opinion here are reflected in the country as well.

Royal Dockyards (Devonport and Rosyth)

3.45 pm

The Secretary of State for Defence (Mr. Michael Heseltine): With permission, Mr. Speaker, I should like to make a statement about the royal dockyards at Devonport and Rosyth.

On 17 April I outlined a number of options for the future management of the dockyards which have an annual turnover of over £400 million. They ranged from a trading fund in the public sector to full privatisation.

I said at the time that the Government's preferred strategy was for a scheme of commercial management and I initiated a period of consultation with a view to a final decision before Parliament rose for the summer recess. I have now had the opportunity to consider the many representations submitted during the consultation period, including the timely reports of the Public Accounts Committee and the Select Committee on Defence.

There is almost unanimous agreement that a significant change is needed in the way that the dockyards are run. Indeed, the House will be aware that action has been called for in reports associated with the Mallabar committee in 1971, with Hughes in 1973, with Brightling in 1978 and with my hon. Friend the Member for Ashford (Mr. Speed) in 1980. Last year we had the PAC stating:

"We regard determined—and if need be radical—action as essential to resolve the fundamental issues still outstanding".

But little has happened as a consequence of the reports, as there was no agreement on how to proceed.

The option of a trading fund would not, in the Government's view, go far enough in freeing management and work force from the restrictions and interference of Government. Full privatisation today, on the other hand, would leave the Government with insufficient influence over a major establishment in the defence field at a time of considerable transition.

Commercial management, on the other hand, has the advantage of freeing the local management from the more restrictive public sector contraints and of enabling the private sector to seek to expand the opportunities in the areas concerned, while retaining a significant degree of accountability to the Royal Navy and particularly of securing a climate of maximum competition.

The option of commercal management remains therefore the Government's preferred solution and we intend to proceed along these lines. I should tell the House that I am much influenced by the fact that this is also the preferred solution of the Navy itself.

The Government are convinced that the right way ahead is to retain ownership of the fixed assets and to bring in commercial management to run them. I therefore intend to seek competitive tenders from competent British companies to manage the dockyards. These tenders, which would be for a period of some years, would be evaluated for their management and pricing proposals and would be expected to contain a strong incentive element. I am encouraged by the number of companies that have shown interest in these proposals, including those of the stature of Babcocks, Balfour Beatty, Costain, Plessey, STC, Trafalgar House, the Weir Group and other major industrial concerns acting either alone or in consortia.

I hope to introduce the necessary legislation as early as possible, with the intention of introducing commercial management no later than 1 April 1987.

Regardless of the longer-term management structure for the dockyards, there must be improvements in efficiency in the dockyards now. These will involve reductions in jobs. We believe that the majority of these will be achieved by means of natural wastage and voluntary redundancy. Compulsory redundancies will be kept to the minimum possible.

I should tell the House that my hon. Friend the Parliamentary Under-Secretary of State for Defence Procurement has informed my hon. Friend the Member for Gosport (Mr. Viggers) that we are making available to the trade unions today a consultative document proposing how best we might improve efficiency in the Marine Services organisation.

In view of the extra work associated with the Trident programme, the problems at Rosyth will be relatively small and shortlived. But there will be a special problem at Devonport. We have already embarked upon a programme to help. We have set up a Devonport development unit which will be the focal point for the activity necessary to generate new jobs, and I have announced our immediate intention to make available for development two small but significant areas of land in prime positions in the city. My Department is examining its expenditure profile with a view to identifying any opportunities for expanding local commercial activity. We are looking urgently at the potential of the historic and attractive site at Royal William yard for development and the creation of employment. It should be possible also to identify other opportunities for expansion.

Each dockyard will have a core programme of essential work as the basis for its long-term future. Commercial management will ensure that that work is carried out in as cost effective a way as possible and that, through greater efficiency, the dockyards are in a position to win orders in a wider market than at present and expand their activities.

Mr. Denzil Davies (Llanelli): The right hon. Gentleman's statement is at least predictable, because, for the second time in a few weeks, he has demonstrated his total contempt for a unanimous report of a Select Committee, which found that there was no evidence for the proposals that he and his Department have put forward. Even worse, the slipshod, cavalier, irresponsible and "inept"—as the Select Committee said—way in which the right hon. Gentleman has treated the royal dockyards has been deeply insulting to those in the Royal Navy who are so dependent upon the expertise of the yard and to the thousands who work in Devonport and Rosyth, who have served the Navy and this country with such dedication and skill over many years, many of whom will apparently join the dole queues in Devonport and Rosyth.

Is the Secretary of State aware that, despite his statements about the Navy — he has produced no evidence to show that the Navy prefers this solution—almost no person in the Royal Navy, the dockyards or the Civil Service would agree, if he were honest, with the right hon. Gentleman's plans? Indeed, the only enthusiasts left are the right hon. Gentleman and Mr. Peter Levene, whose slipshop and shoddy report, produced earlier this year, would not have obtained a D-grade at O-level.

Did not the right hon. Gentleman mislead the House on 17 April when he said:

"The proposal is based upon American experience."—[*Official Report*, 17 April 1985; Vol. 77, c. 263.]

As was known then, and as the Select Committee has shown, the naval dockyards in the United States are operative in the public sector through a trading fund. If the right hon. Gentleman did not know that, a telephone call or perhaps a quick VC10 flight to his friend Caspar Weinberger would have told him of the realities. Is it not the case that the figures that the right hon. Gentleman's Department cobbled together for the Select Committee and the Public Accounts Committee bear as much relation to realism as the figures contained in a balance sheet of Johnson Matthey Bankers? Is it not a fact that the managerial, accounting and commercial problems in the dockyards—we accept that there are problems—could all have been solved within the public sector without going down this ridiculous road, which will make matters much worse?

The Secretary of State should have had the courage and the grace to accept that he has made a mess of these proposals. He should have accepted that nothing can be done to revive them, taken them away and brought back proposals to make the development and operation of the dockyards better, and not worse, as these proposals will do.

Mr. Heseltine: Of course, I have to reject all the right hon. Gentleman's assertions. This matter has been under active political review by various Governments for a long time. There is now almost universal agreement, first, that the way in which we are managing and accounting for public money on a large scale is wholly unacceptable and, secondly, that there is a need for action. The Government are facing up to the logic of that imperative and taking the decisions that are necessary.

The House may wish to judge the effectiveness of the right hon. Gentleman's response. He talks about the dole queues in Rosyth, but the Labour party is committed to abandoning Trident, on which employment in that area depends. When he has the effrontery to talk about the honesty of those who advised me, as if the Admiralty Board was acting in any interests except those of the Royal Navy, he shows the complete contempt that the Labour prty has for the Armed Services.

The Labour party had every chance to grip the matter when it was in power, but it examined the position and made no decisions. In 1978, having looked at the option of a trading fund, the Labour Government announced that there would be no decision to make progress. Once again the Labour party ran away. It is now desperately trying to oppose what we are doing, although it had no proposals and no integrity to deal with issues of public administration.

Sir Antony Buck (Colchester, North): Is my right hon. Friend aware that his announcement will be greeted with satisfaction by many of those both serving in, and with recent experience at the head of, the Royal Navy? Will he assure the House that at the end of the day sufficient refit capability will remain for our 17 hunter-killer nuclear submarines and our new Trident submarines when, in due course, they need to be refurbished?

Mr. Heseltine: I am most grateful to my hon. and learned Friend, who takes a wholly constructive view of these matters, and I can give him the assurance that he requires. However, I must say that I am equally concerned that that capability should exist, whether in the various areas surrounding Rosyth and Devonport, or in other areas that have levels of unemployment that are as high, if not higher. Delegations from such areas continually come to my office asking us to put more refit work into the less privileged parts of the north of England and Scotland.

Mr. Robert Sheldon (Ashton-under-Lyne): Will the Secretary of State acknowledge that the Public Accounts Committee commented on the savings as a percentage of annual operating costs, which may be as little as 1 per cent. within the margin of error? What does he estimate the net savings as a percentage of annual operating costs to be?

Mr. Heseltine: The right hon. Gentleman, who has a great responsibility to account to the House for these matters, will know the difficulties of trying to be wholly accurate in predicting large sums and the changes therein, especially against the background of having to negotiate both with the unions about enhanced efficiency, and with contractors, who will seek to drive the deal that most suits their natural interests. We must be sure, therefore, that we do not put on the table a range of figures that we believe to be possible but which those with whom we must negotiate will see as an opportunity to drive an even harder bargain.

The initial figures that we had in mind, which were based on a 20 per cent. efficiency gain, suggested savings of about £12 million a year rising to £18 million after 10 years. That was about 3 per cent. rising to 4·5 per cent. of turnover of £400 million. In our view that is the worst case, and there are much more optimistic scenarios. A later assessment based on the likelihood of greater efficiency gains showed gains of about £24 million to £26 million a year, rising to about £29 million or £33 million, which is 6 to 7·5 per cent. of turnover.

Miss Janet Fookes (Plymouth, Drake): Does my right hon. Friend understand that many of my constituents will find his decision perverse in the extreme since it flies in the face of all the advice offered to him by two Select Committees and many other organisations in Plymouth, including the report of the accountants Peat Marwick Mitchell? Does he also understand that many of the misgivings arise from the fact that there is likely to be a change in leadership at regular intervals if he follows the original plan in the consultative document? What does he mean by "some years", which is an enigmatic phrase, yet a key one?

Mr. Heseltine: I am most grateful to my hon. Friend for taking a real interest in the proposals that we have in mind. I am anxious to keep closely in touch with local feelings. The House will understand that there is a legitimate difference between the essentially local interests of those who represent Devonport, who must be interested in securing the largest possible cash flow into that economy, and the interests of those who have to administer the national purse, which in this context is the defence budget. I have to be sure that the country's interests are regarded by obtaining competitive prices and ensuring that I obtain value for money for the defence budget.

My hon. Friend's remark about the perversity of the decision in the light of the evidence has to be tempered by

[Mr. Heseltine]

the fact that I have received a range of views from those who think that there is considerable benefit from commercial management. These views are expressed by companies that are prepared to become involved in the negotiating process to secure that management. They argue in favour of the proposals. I have to consider the views of the Admiralty Board, which believes that these are the best proposals for the Navy which, after all, is the customer.

I assure my hon. Friend that I understand the concerns that are being expressed locally. I hope that the work that we are doing in the Ministry to try to help further job creation in the area will be seen as our determination to look after that interest. I have also to consider wider defence interests, and I believe that they will be best served by the way in which the Government will decide the matter.

Dr. David Owen (Plymouth, Devonport): Surely the Secretary of State will accept that the devastating criticism of the Public Accounts Committee has nothing to do with local interests and that no member serving on that Committee had any local interest. The contemptuous brushing aside of the Committee's recommendations and criticisms, and those of the Select Committee on Defence, makes most people believe that the consultative process has been the sham that many predicted at the start. Will the right hon. Gentleman make clear what he means by

"I hope to introduce the necessary legislation".

Will the legislation be introduced in the next Session? If not, will the Government be able to meet 1 April 1987?

Mr. Heseltine: The right hon. Gentleman has not been out of Government for so long as to have forgotten that conventions are observed by Ministers when announcing future programmes. It would not be right for me to announce the contents of the Queen's Speech. It is our intention to proceed as fast as we can but in a manner that is compatible with achieving the introduction date that I have mentioned.

I cannot accept the right hon. Gentleman's contention that the consultative process has been a sham. The issue has been under consideration for nearly 15 years and little new argumentation has emerged during the period in which the issue has been at the forefront of public concern. Until now, Governments have failed to take decisions, and I must take into account the words used by the PAC, that there is a need for "radical" and urgent action. We intend to take that action and we are not prepared to run away from the issue, which the Labour Government, of which the right hon. Gentleman was a member, did consistently.

Mr. Maxwell-Hyslop (Tiverton): Will my right hon. Friend make it clear to the House that in any redundancy there may be in Devonport, the employment of those who have served there over many years will take priority over those who have been moved there from Chatham to try to reduce the Government's embarrassment when Chatham was closed? No such transfers must be allowed to take precedence over the claims of those who have put a lifetime of work into Devonport.

Mr. Heseltine: My hon. Friend has raised an important issue and I shall give it my personal and urgent consideration. I hope that the rundown in jobs that will be necessary to attract the increased efficiency that we want will be secured, to the greatest extent possible, by voluntary redundancy and natural wastage.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): The Secretary of State claims widespread support for the significant change that is proposed. Is he aware that the relevant trade unions are on record as saying that they are not opposed to change provided that it takes place in the proper consultative atmosphere? He has said also that the problems of Rosyth would be small and shortlived. Is he not minimising, and therefore jeopardising, the maintenance programme of the ballistic nuclear force? Is he sure that his proposals will not impair the Navy's flexibility to cope with emergency work, which was so admirably demonstrated at the time of the Falklands crisis?

Mr. Heseltine: The hon. Gentleman is familiar with these issues and they were considered carefully by the Admiralty board before it made its recommendations to me. The board judged that in all the circumstances the relevant factors had been taken into consideration and that it could still advise me to proceed in the way that I did.

The hon. Gentleman has asked me about the attitude of the unions that are concerned. Whenever change is proposed that involves a transfer from the public sector to the private sector, the unions are opposed to it. There is nothing new in that, for that is the essence of their political faith. I respect their entitlement to have those views. However, if I have the feeling that such views are expressed for doctrinal reasons as against practical reasons, I am entitled to take that into account. Whenever the Government privatise something, the unions forecast doom and gloom, and every time they are proved wrong.

Mr. Peter Viggers (Gosport): Does my right hon. Friend agree that the superb contribution made by the naval yards at the time of the Falklands war demonstrates the performance of which are capable? Does that not contrast sharply with the poor level of efficiency and serious level of absenteeism at the Rosyth and Devonport yards. Does he accept that it should be possible for the naval yards to benefit from privatisation in much the same way as other industries have? Surely management, workers and customers should benefit alike?

Mr. Heseltine: I am grateful to my hon. Friend for his remarks. I have written today to all the dockyards' employees urging them to recognise the constructive opportunities that are now on offer. After the warship building yards were nationalised there were no new sales of frigates. Before nationalisation we had an export market in frigates. Private warship builders in Germany have been selling frigates consistently and we have been failing to do so. Obsessive slavery to the concept of public ownership is positively inimical to the interests of the workers concerned.

Mr. Gordon Brown (Dunfermline, East): Will the Secretary of State for Defence, who today sounds more like the Secretary of State for defence of the private sector, explain his enthusiasm for these high-cost and high-risk proposals, which have been rejected by every committee that has considered them since the second world war, and which subordinate the interests of national security to those of commercial gain? Will he tell us how many loyal civil servants, recently and rightly praised by Sir Henry

Leach, Admiral of the Fleet now retired, for their professional alacrity, will be summarily dismissed if these unpatriotic proposals go ahead?

Mr. Heseltine: The hon. Gentleman is fully aware that the private sector responded just as magnificently as the public sector when we had to face the Falklands crisis. As I said to the right hon. Member for Llanelli (Mr. Davies), it is nothing short of scandalous to believe that Admiralty Baord would put the interests of private contractors above Britain's defence interests.

Mr. Barry Henderson (Fife, North-East): What proportion of the work force at Rosyth depends on the maintenance of the submarine independent nuclear deterrent, which the Labour party will abolish? What reduction is anticipated in the work force after these measures become effective and how will it compare with the 1979 measures? Finally, what is the length of contract that is envisaged under these proposals?

Mr. Heseltine: I am sure that my hon. Friend will appreciate that the work involved in arriving at the agreed detail of the contract is extremely lengthy and complex. We must now make progress on that and we shall keep the House fully in touch. The detailed examination of any legislation that is introduced will enable the House to be kept informed.

I understand that about 40 per cent. of the Rosyth work force is employed on the nuclear deterrent. We have announced recently large extensions in the amount of work that is to be concentrated at Rosyth in connection with the Trident programme. The potential job losses at Rosyth and Devonport, which come from the management measures to which I have referred, are those that I produced to the House in April when discussing dockyard reorganisation. On that occasion, I spoke of about 2,000 job losses in the 13,000 work force at Devonport and about 400 job losses among the 6,300 who comprise the Rosyth work force.

Mr. Nicholas Brown (Newcastle upon Tyne, East): Is the Secretary of State seriously inviting privatised warship yards such as, potentially, Swan Hunter to tender for work that is now carried out solely at the naval dockyards?

Mr. Heseltine: I think it right and in the best interests of the country for there to be a competitive environment in which companies such as Swan Hunter have the opportunity to tender for the maintenance and repair work of the Royal Navy. Undoubtedly they would be interested in such work. I have seen experiments conducted in respect of frigates and submarines recently and contractors outside the Devonport and Rosyth dockyards are carrying out the work. A competitive environment must be in the interests of workers in different parts of the country and it is certainly in the interests of the defence budget.

Mr. Robert Hicks (Cornwall, South-East): Is it not a fact that the agency management concept is speculative and non-proven, in that nowhere in the world is there a comparable model on the scale envisaged? In view of the lack of substantive evidence since the publication of the consultative document, does my right hon. Friend think that is the way to treat the defence and security of this country?

Mr. Heseltine: I realise that my hon. Friend must press me in the interests of his constituents——

Dr. Owen: That is a shameful reply.

Mr. Heseltine: My hon. Friend will discover whether it is a shameful reply. I am going to answer his question carefully. I have talked to him about these matters and I do not seek to make party capital out of them, like the right hon. Member for Plymouth, Devonport (Dr. Owen). If the right hon. Member for Devonport cared about his constituency he would have taken steps to ensure that there were efficiency gains when he had the power to do something about it, as opposed to supporting a Government who ran away from every major issue that confronted them in the management of the dockyards. It is a classic example of the right hon. Member. He wants it both ways on every conceivable occasion as long as he is not asked to make any real decisions about anything.

Mr. Dennis Skinner (Bolsover): Hear, hear.

Mr. Heseltine: At least the hon. Member ought to agree with me about that.

Mr. Skinner: Yes, get stuck into him.

Mr. Heseltine: This must be the most unholy alliance this Parliament has ever seen. If I could come back to my hon. Friend—*[Interruption.]*

Mr. Speaker: Order. We must hear the answer to the hon. Member for Cornwall, South-East (Mr. Hicks).

Mr. Heseltine: I am glad to see the right hon. Member has run out of arguments. My hon. Friend the Member for Cornwall, South-East (Mr. Hicks) says there is no precedent for this anywhere in the world. It is true that there is no example known to me where a dockyard is managed by commercial contract, but the precedents I have looked at are defence establishments in the United States, which have more people employed, are in the defence industries and which operate a commercial management arrangement. If, for example, General Dynamics can manage production employing 16,000 people on the F-16, there is no issue of principle in saying that one cannot manage a dockyard on the same lines.

Mr. Tam Dalyell (Linlithgow): Representing, as I do, some of those who work at Rosyth, may we return to the question that the Secretary of State's hon. Friend the Member for Plymouth, Drake (Miss Fookes) very properly put on behalf of her constituents? What exactly is meant by the sentence:

"These tenders, which would be for a period of some years"?

Perhaps I could explain the problem. In the west Lothian area we have the problem of Plessey, one of the firms that the Secretary of State mentioned. In complicated circumstances, with which I will not bore the House, it withdrew. How are we to know that on the banks of the Forth the same thing will not happen again?

Mr. Heseltine: Because we would not be prepared to enter into contracts with anything other than extremely substantial companies, and there would be contractual liabilities and commitments to ensure that such a situation did not develop. My hon. Friend was quite right to ask her question and I should like to take the opportunity now to answer it. We have yet to finalise the precise date of the contract and, in a sense, it must be influenced by the nature of the element of competitive pricing within the first contract we draw. We have certainly talked in terms of five years minimum, and there was a suggestion that we should go for longer periods. I expect to keep the House informed

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on this matter as the discussions proceed. It must be in our interests not only to get a competitive environment, but to get a degree of stability into the areas concerned.

Several Hon. Members *rose*——

Mr. Speaker: Order. I will endeavour to call hon. Members who have been standing if they have a constituency interest or a direct interest through the Select Committees. Could I ask for brief questions, please?

Mr. Michael Marshall (Arundel): As a member of the Select Committee I was one of those who listed some anxieties and questions to my right hon. Friend in our report. Will he say that he still hopes to address his mind to those questions? On the specific point about the period for commercial management, will he accept that the vast majority of industry—that known to me at any rate—is concerned that five years is far too short? It is not sufficient time on which to obtain a return on that sort of investment and could lead to major problems about work in progress and transition if another company is licensed to carry on. Does he accept this is a serious point and that a longer period appears to be vital?

Mr. Heseltine: My hon. Friend is quite right. Those points have been put to us by industry, but one would expect industry to look to the longest possible period before it has to face the competitive challenge of an alternative contractor. A balance must be struck, but I am not unsympathetic to a longer period, provided the competitive disciplines and the costing arrangements are sufficiently sharp to meet the national interest. I will bear that in mind. Of course, the Government will be responding to the Select Committee on Defence and to the Public Accounts Committee in the proper way.

Mr. Michael Foot (Blaenau, Gwent): The right hon. Gentleman sneers and jeers in his usual offensive fashion against any of those who were members of previous Governments. Will he not take into account that it was the provision for the royal dockyards and for their maintenance as such which enabled them to perform great achievements during the Falklands war and thereby to contribute to the safety of the nation? That has been one's experience of the royal dockyards in every crisis the nation has had to face. What right has he as a twopenny-ha'penny cheapjack to come along and say, "We will hand them over to commercial interests"? Will he not listen to the people who know something about it? When is he going to face the people in Devonport dockyards and hear what they have to say?

Mr. Heseltine: I give the right hon. Gentleman the unqualified assurance that I will listen to people who know something about it, but this nation made quite clear what it thought about his ability to know something about it.

Hon. Members: Cheap.

Mr. Speaker: Order. Let us keep the temperature down.

Mr. Peter Griffiths (Portsmouth, North): Will my right hon. Friend agree——

Mr. Skinner: The Secretary of State is only a privatised soldier: he bought himself out.

Mr. Speaker: Order. Mr. Griffiths.

Mr. Griffiths: Does my right hon. Friend agree that his statement today will provide a sense of purpose and direction which has been lacking in the royal naval dockyards for many years? The statement will therefore be widely welcomed. In his comments about the opportunities available for contracts outside the naval dockyards, will he say whether this includes fleet maintenance bases such as Portsmouth?

Mr. Heseltine: The statement I made today covers the two specific dockyards. The maritime services consultation document which I also announced will extend across the country at large, outside the dockyards as well as within them. I have no doubt that there will be examples relevant to Portsmouth, but I will confirm that to my hon. Friend. I appreciate the thought behind his question, because within the dockyards there is great anxiety about being faced with change. But there is a great willingness to recognise that change is necessary, and a great sense of dedication and frustration, which can be put to great opportunity for the benefit of the local economies.

Mr. Andrew Faulds (Warley, East): The right hon. Gentleman will, in due course, get his own come-uppance, however insulting he may be to former Prime Ministers. But, to my question, Mr. Speaker. To safeguard the public interest, will it be made a requirement that all of the tenderers for management of the docks shall make no contribution hereafter to Tory party funds?

Mr. Heseltine: I am sure that the hon. Member for Warley, East (Mr. Faulds) means that as seriously as a suggestion that any trade unions involved in the dockyards should make no contribution to Labour party funds.

Viscount Cranborne (Dorset, South): Will my right hon. Friend confirm that he has no similar plans for the dockyard at Portland in my constituency, and that the jobs at Portland will be preserved against the drafting-in of long-service people from Tiverton and Rosyth?

Mr. Heseltine: I cannot refuse to give my hon. Friend an encouraging answer in the light of the reply I gave to my hon. Friend the Member for Tiverton (Mr. Maxwell-Hyslop). I will have to look at these matters, but I can give him an unqualified assurance in the terms of the question he asked that I have no plans before me at present to deal with the installation in his constituency.

Mr. James Wallace (Orkney and Shetland): The Secretary of State will be well aware that the Select Committee took the view that the Government should not adopt the option of commercial management unless they could demonstrate that the advantages of a trading fund, subject to modification, were outweighed by commercial management. Despite that, the option of the trading fund was dismissed in one simple sentence, to the effect that it did not go far enough in freeing management from restrictions and interference by the Government.

What evidence has the Secretary of State for that, apart from blind dogma? What are these interferences and restrictions, no doubt within his own Department, which he is incapable of resolving?

Mr. Heseltine: I think that the hon. Gentleman will know that the option of a trading fund has been looked at time and time again. It has been looked at by this Government and by the previous Government. The previous Government decided not to proceed with the trading fund, and they published their decision in 1978.

One of the reasons why it is so difficult to see the commercial opportunity within a trading fund is simply that the restrictions of the public sector in terms of union negotiations, pay claims and gradings in various areas impose a constraint on management from which it is very difficult to break. If we are looking for the opportunity for the real development of a facility such as the dockyards, we are far better to have local autonomy, local decision-taking, local management and local unions seeking out the markets that suit them, without the need constantly to refer these matters to central Government.

Mr. Bill Walker (Tayside, North): My right hon. Friend will be aware that there is a royal naval workshop in my constituency. He will also be aware that a number of royal naval officers who serve on Her Majesty's submarines also live in my constituency and, down the years, they have complained about the management at Rosyth and the long time that it has taken to get their submarines made fit for sea again. They will welcome the changes in the improvement of management and, further, they will also welcome the assurances that we have given on the Trident programme, which guarantees their jobs.

Mr. Heseltine: I think that my hon. Friend will be proved to be far more wise in these matters than many Opposition Members who have spoken. Those who have the ultimate responsibility for the management of the Fleet are in favour of these proposals. As Secretary of State for Defence, responsible for the defence budget, I believe that they are in the best interests of the public.

Mr. Anthony Steen (South Hams): Since I have a large number of constituents who work in one of these dockyards — the Secretary of State will know this because he used to represent part of my constituency— will he comment on the numbers of people working in the dockyard who will be made compulsorily redundant? He skated over that somewhat, and I think that he should say how many redundancies he envisages in the next few years.

Will my right hon. Friend also say a little more about the job creation proposals? He mentioned Plymouth, but one of the real problems arises outside Plymouth, especially in Ivybridge where many people live who work in the dockyard. They need new jobs there, and there is a lot of land in Ivybridge which could be used by starter firms and starter businesses to create new jobs. Will he say a little more about that?

Mr. Heseltine: My hon. Friend asked me two important questions. The first is about the number of compulsory redundancies. It is my hope that we shall use every endeavour, to secure this purpose, to ensure that the job losses can be achieved by way of natural wastage and voluntary retirement—[HON. MEMBERS: "How many?"] That will be the momentum that the Department now pursues. We cannot know how many people will accept voluntary retirement. In those circumstances we cannot quantify how many inevitably will be made compulsorily redundant. But all our endeavours will be directed to trying to minimise compulsory redundancy.

My hon. Friend then asked where any help that we can give will be located. That will be a matter for my hon. Friend the Parliamentary Under-Secretary of State for Defence Procurement, who is personally chairing the Devonport development unit. It is not of concern to us specifically if sites are within the city boundary or outside it so long as there are work opportunities in the area. My hon. Friend the Parliamentary Under-Secretary will have heard the question, and I have no doubt that he will bear it very much in mind.

Mr. Skinner: Will the Secretary of State assure the House that, in view of the unreliability of private money, as evidenced recently by a number of events, he will make sure that certain companies are not given licences to operate in the royal dockyards when they get the opportunity? Will the right hon. Gentleman assure the House, for instance, that Gomba UK, run by Abdul Shamji, will not be given the opportunity to get its dirty fingers down there, as it did when it managed to find itself in an enterprise zone at Strood, near Rochester, a few months before anyone else seemed to know about the existence of the zone? That kind of preferential treatment is to be abhorred by everyone. When, into the bargain they do not pay back the money, what guarantee can the Secretary of State give that none of those people, of whom there are now an increasing number, will be able to move down there, make a killing, and leave the taxpayer to pick up the bill?

Mr. Heseltine: The hon. Gentleman knows that we shall take all proper care to ensure that those who get contracts for this vital part of the defence establishment are of impeccable standards.

Mr. John Browne (Winchester): Does my right hon. Friend accept that if we are even to maintain let alone increase real levels of spending on defence, the Government will come under increasing pressure to show value for money in their spending? Does he also accept that this privatisation of the dockyards is not only a bold but an imaginative step long overdue, which is part of the drive to ensure that there is value for money in defence spending and which will be welcomed widely throughout the Royal Navy, especially at senior levels, and also in the country at large?

Mr. Heseltine: I am sure that my hon. Friend is right. All the precedents are on his side. Every time that this Government have taken a bold and courageous step to transfer public assets to the private sector, it has been widely welcomed by the customers and by those working for the companies concerned.

Mr. Denzil Davies: Will the Secretary of State now answer the question that he has not yet answered? How many jobs will be lost as a result of this operation, especially at Devonport? Will he also say how much money can be put into the development unit to try to find other jobs?

Will the right hon. Gentleman also answer the question that the hon. Member for Plymouth, Drake (Miss Fookes) asked? Why is he taking a perverse decision? He said that there had been argument over the past 15 years. Yes, but he is the only person who has not been involved in the argument. He has not put forward any arguments. Indeed, the Select Committee refused to accept what the Ministry of Defence said. By all means let the right hon. Gentleman take decisions. All that we ask is that he takes decisions on a rational basis instead of taking them in the dark and purely on the basis of ideology. The Opposition have always argued that changes are necessary, but all informed opinion believes that the changes can be carried out in the public sector.

[Mr. Denzil Davies]

There is one saving grace, however. By the time that the right hon. Gentleman has put through all these different legislative operations, he will not be Secretary of State, and the Labour party will ensure that the dockyards are taken back into public ownership.

Mr. Heseltine: If all these changes could be put through within the public sector, why did the Labour Government announce in 1978 that they had no intention of proceeding with a trading fund and give no alternative way forward? What conceivable explanation is there? There is only one explanation. It is that they could not carry their own people, including the unions, with them towards the enhanced efficiency that we are determined to achieve.

I wish that the right hon. Gentleman had listened to what I have said several times. I have already given the figures. He knows full well that in Devonport there are at present some 13,000 people employed and that the potential job losses involved in the management improvements are of the order of 2,000. At Rosyth, it is 6,300, with job losses of the order of 400. I gave those figures in April and I gave them again earlier this afternoon.

Royal Dockyards

4.28 pm

Dr. David Owen (Plymouth, Devonport): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the decision of the Secretary of State for Defence to ignore the reports of the Public Accounts Committee and the Select Committee on Defence and to announce his decision before making any substantive response to either of those two Committees."

The matter is specific and urgent because the House is adjourning for the summer recess on Friday. If the Secretary of State is to be believed, although there is some doubt about whether the implementation of his decision will be included in the Queen's Speech, it appears unlikely, were it to be in the Queen's Speech, that there will be any possibility of the House discussing the reports of the PAC and the Select Committee.

I submit that these Committees are not asked to make reports only for them to be brushed lightly aside. The PAC is one of the most respected Committees of the House. It is chaired, as is normal, by a distinguished Opposition Member, and it is made up of hon. Members of the House who certainly do not represent their local interests in the Committee. The Public Accounts Committee has drawn attention to the fact that it believes that the savings that will come as a result of these proposals will total, over a 10-year period, only £40 million, whereas it also estimates that the Government's proposals over a similar period will cost £60 million to implement. Therefore, over a 10-year period it is possible, if the Public Accounts Committee's fears are justified, that the Navy will have to find an extra £20 million to fulfil these obligations.

The report of the Public Accounts Committee also states that the Ministry of Defence provided

"no valid basis to judge whether any materially increased efficiency whatsoever attached to the Government's preferred option".

The Committee went on to say that it had

"severe misgivings about the thoroughness and the accuracy of the MOD's costings".

The Committee concluded:

"The Ministry of Defence has not provided enough evidence to enable Parliament to assess the financial aspects of all the options."

I fail to understand as, I think, do many fair-minded hon. Members on both sides of the House, how the Secretary of State, against that background of the Public Accounts Committee report can come to the House and make this decision without producing a shred of evidence or making any attempt to answer the criticisms of the Public Accounts Committee. It is worse than that. The Select Committee on Defence also considered this question and came to a similar conclusion, although not in such a concentrated way.

I think that we owe it to the members of the Public Accounts Committee and to the Comptroller and Auditor General that this provision should not go without an urgent debate. As I understand it, this is the only opportunity for a debate. It is not just a constituency case. I do not believe that the matter can be argued as effectively in a debate on the Adjournment of the House because we wish the Secretary of State for Defence to answer. Although we like and respect the Leader of the House and pay tribute to his

great virtues, I think that he would be the last to admit that he shall be cast in the role of defending the Secretary of State for Defence, and many of us hope that his wisdom will stop the inclusion of the proposal in the Government's legislative programme.

This is a matter of great concern. Many people's livelihoods are at stake. It raises the spectre of unemployment but, above all else, it raises the question whether under these provisions the Royal Navy will be as adequately and as well served as it has been in the past.

The House has paid tribute in the wake of the Falklands to the work that has been done by the royal dockyards. I suggest that the House owes it to those people in the royal dockyards in this circumstance to examine very carefully the Secretary of State's proposals before they are carried out. I hope, Mr. Speaker, that you will grant my request.

Mr. Speaker: The right hon. Member for Plymouth, Devonport (Dr. Owen) asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the decision of the Secretary of State for Defence to ignore the reports of the Public Accounts Committee and the Select Committee on Defence and to announce his decision before making any substantive response to either of those two Committees".

I have listened with great care to what the right hon. Member has said. As he knows, my sole duty in considering an application under Standing Order No. 10 is to decide whether it should have priority over the business already set down for this evening or for tomorrow. I regret that I cannot find that the matter that he has raised meets all the criteria laid down in the Standing Order, and I cannot, therefore, submit his application to the House.

London Docklands (Report)

4.33 pm

Mr. Simon Hughes (Southwark and Bermondsey): On a point of order, Mr. Speaker. May I raise with you, Mr. Speaker, a question which is similar to others which have been raised on this subject in the past, namely, the prior release outside the House of a document which should first come to the House.

Yesterday morning there was an announcement at a press conference held by the London Docklands development corporation of its annual report, which was then presented to the press and public. Four Members of the House represent constituencies covered by the area of the corporation. As you will know, Mr. Speaker, the chain of accountability is through the Secretary of State to the House. As far as I have been able to ascertain, none of the four Members of Parliament was notified in advance or had received—or, indeed, until now, has received—copies of that annual report. Indeed, the first notification which anybody in the House could have had is that there was laid on the Table of the House—and it is recorded in the Vote today—a copy of the annual report dated as of yesterday, although not obtainable, in, and not delivered to, the Library of the House until this afternoon.

The issue raised is the manner in which the Secretary of State for the Environment or his Under-Secretary of State charged with responsibility for these matters is properly fulfilling his duty of prior and primary accountability to the House when a corporation, solely accountable to the House through the Secretary of State, acts to present its information and report outside the House before it comes to the House.

I ask, Mr. Speaker, whatever ruling you may be able immediately to give, that the matter be taken into account by the Leader of the House, who is in his place, and passed on to the relevant Ministers and Secretary of State in the Department, and that yet again you seek to protect the interests of Members of the House by confirming that documents should come first to the House before they go to the press and to other members of the public.

4.35 pm

Mr. Peter Shore (Bethnal Green and Stepney): Further to the point of order. As another Member from the docklands area, may I say that I find this matter particularly disturbing because the London Docklands development corporation is under an obligation to make an annual report to the Minister, and that is the only way in which its actions and activities are made accountable and known to Members of Parliament.

There has been a flagrant breach in that a press conference was held even before the document was deposited in the House of Commons. I realise, Mr. Speaker, that your own direct duties, rights and capacities in this matter are limited, but I hope that you will take this opportunity to make known your displeasure at this flagrant breach of convention and good manners.

Mr. Dennis Skinner (Bolsover): Further to that point of order, Mr. Speaker. Perhaps at this time, it would be appropriate for you, or somebody to point out that, whenever we get these complaints about leaked documents, which have happened in the course of the 15 years for which I have been a Member of Parliament, if

[Mr. Dennis Skinner]

television is allowed into this place, the leaking of documents and all other matters similar to the one that has been raised——

Mr. Speaker: Order. I do not think that the hon. Gentleman is on a very good point. This is not a leaked document, as I understand it. The right hon. Member for Bethnal Green and Stepney (Mr. Shore) and the hon. Member for Southwark and Bermondsey (Mr. Hughes), who raised the point, well know my strong views on these matters, and I will certainly let them be known in the right quarter.

BILLS PRESENTED

RACE RELATIONS (WELSH LANGUAGE)

Mr. Dafydd Wigley presented a Bill to amend the Race Relations Act 1976 to provide that a requirement relating to use of, or proficiency in, the Welsh language shall not constitute discrimination within the meaning of that Act; and for connected purposes: And the same was read the First time; and ordered to be read a Second time tomorrow and to be printed. [Bill 201.]

BRITISH NATIONALITY ETC. (TREATMENT OF CITIZENS OF PAKISTAN)

Mr. Tony Lloyd, supported by Mr. Gerald Kaufman, Mr. Peter Pike, Mr. Derek Fatchett, Mr. James Lamond, Mr. Robert Litherland, Ms. Clare Short, Mr. Stan Thorne, Mr. Ron Davies, Mr. Terry Lewis, Mr. Ken Eastham, and Mr. Jeremy Corbyn, presented a Bill to amend the British Nationality Acts and the Immigration Act 1971 to confer upon citizens of Pakistan resident in the United Kingdom the same rights and privileges to which citizens of Commonwealth Countries are entitled: And the same was read the First time; and ordered to be read a Second time upon Friday 25 October and to be printed. [Bill 203.]

Local Government (Prevention of Political Corruption)

4.37 pm

Mr. Edward Leigh (Gainsborough and Horncastle): I beg to move,

That leave be given to bring in a Bill to amend sections 137 and 142 of the Local Government Act 1972.

I will deal first with the historical background and then with the present situation and the details of the Bill.

Up to 1972, local authorities were governed by the doctrine of ultra vires, and they were not permitted to do anything not specifically allowed for by statute. This meant that in some circumstances they were put in the embarrassing position, for instance, of not being able to repair a canal bank until they had come to the House for a general powers Act. In 1963, local authorities were given a very limited power to spend money on some projects not specifically allowed for by the House. In Committee at that time, Sir Cyril Black said that he hoped that local authorities would confine expenditure to necessary and modest projects, and would not make it an occasion for spending money merely because they had the power, unless there was some compelling reason for the expenditure.

Those were prophetic words because in 1972 Parliament decided to experiment and give local authorities the power to devote a 2 pence rate on anything of benefit not necessarily to all the residents of the local authority but merely to some. Parliament felt justified in making that experiment because there was at that time a consensus about what local authorities should be about, namely, professional full-time officers supervised by part-time elected councillors providing services of a direct and practical kind which all residents of that local authority would be deemed to enjoy or hope to enjoy at some future time. Since 1972, that consensus has broken down with the appearance of young full-time hard Left Labour politicians who, denied power in the national arena—often because they voice extremist policies—have turned town halls into an alternative state. They have tried to build up a coterie of tight-knit groups, which are often dependent on the town hall. Such groups often work in a self-supporting circle.

I should like to quote the example of a constituent. Councillor Ben Stallman is a Liberal and I do not support everything that he says but, for many years, he worked satisfactorily for Barnsley borough council, which was Labour controlled. As soon as he became a Liberal councillor, he was hounded and finally forced to retire on grounds of ill health. I believe that he was denied his statutory rights. It is interesting that Barnsley borough council employed Mr. David Blunkett, now the Labour leader of Sheffield city council, and that the late Fred Lunn, Labour leader of Barnsley District Council, was employed by Sheffield.

The expenditure that such local authorities have engaged in is so well known that I do not need to go into detail. I have here a sheaf of paper detailing the grants that the Greater London council has made in the past year. The list includes £50,000 for the Troops Out movement, £2,000 for Song for Peace, £1 million for the biased free newspaper, *The Londoner* and £8,000 for the Peace Year

1 EDP
2 CF

Prime Minister (2) cc NO
To note in particular the message to the dockyard workforce
AT 23/7

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 10/2

23rd July 1985

MO

Dear Peter

Thank you for your letter of 19th July. I am afraid that my timetable has made it very difficult for me to give you more time to consider my proposals for the future management of the Royal Dockyards and I fully take your point that there are many issues which concern the Treasury and which will need resolution in the months ahead. I can assure you that your officials will be closely involved as we proceed to implement the commercial management option - as will those of other Departments with a substantial interest, particularly Environment and Trade and Industry.

I enclose for you and for colleagues a copy of the draft Statement I intend to make later today. You will note that it makes no mention of any alternative to commercial management; but I accept that there remain other possibilities - including privatisation (although I should remind you that this option has been considered and rejected by the Navy Board as having

The Rt Hon Peter Rees QC MP

unacceptable penalties for national security) and the direct injection of commercial management expertise into a Government owned operating company.

On this last point, you will note that I have made a brief mention of alternative structures in the letter I am sending to the workforce (also attached for your information). I see this very much as a fall back - and its mention in this letter is simply designed to keep up the pressure on commercial firms to submit attractive proposals for commercial management.

I am sending copies of this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

THE FUTURE OF THE ROYAL DOCKYARDS

A personal message to the workforce from Michael Heseltine

My personal message to the workforce on 17 April was an explanation of Government ideas for the future of the Royal Dockyards. I wanted you to know all the facts. I wanted you to be able to discuss the Government's proposals and any others, before a decision was made.

I promised Parliament to report before the Summer Recess, the results of the Government's consultation on the options for the future of the Dockyards.

I shall be telling Parliament today that there has been a general acceptance of the need for a significant change if the Dockyards are to have a secure future. And nothing which has been suggested during our discussion period, seems to me to offer a better chance for all of us than a change to commercial management. This would be the best and quickest way to face the competition which lies ahead and give the Dockyards a stable and prosperous future.

This decision is made in the wide interests of the Dockyards, the Royal Navy, the Defence Budget and the workforce. But I do realise and understand that what immediately concerns you is your own job and your personal future – both as a result of the long-term proposals and of the new efficiency management measures, which are now being introduced into the Dockyards.

The change to commercial management will be not later than April 1987. But you are aware that the need to improve efficiency and cut costs has to be tackled now and that the management measures currently being introduced to do this will require the reduction of some 2400 jobs. Most of these will be at Devonport and discussions have already begun to try to identify those who might wish to volunteer for early redundancy. Let me make my position clear. I believe that most of the changes we seek can be achieved by natural wastage and by voluntary redundancy. No one will be made compulsorily redundant unless I am personally satisfied that there is no reasonable alternative.

At Rosyth the workload is planned to increase and there the job losses will be relatively small. At Devonport however, where the short-term consequences will be greater, I have undertaken to do all that is possible towards establishing job opportunities in the area. The Ministry of Defence and Plymouth City Council have jointly set up a development unit to generate these opportunities.

My Department is immediately making available two small areas of land for development in the centre of the City and we will see whether we can expand our local commercial activity. We shall also with the City, and bringing in expert advice right away, look at the potential for commercial development of the attractive Royal William Yard site – and for re-establishing our present activities elsewhere in the area.

For the future, I do not accept the argument which has been discussed during our consultation period, that the cost savings which we expect to achieve from commercial management will inevitably come from job losses within the Dockyards. An efficient Dockyard, under commercial management, will be best placed to attract additional work and the jobs that would generate. This is the best way forward for the local economy in Plymouth and Dunfermline. Particularly – the Dockyards will be free in their new form to compete at home and abroad for more work, including that of new construction.

There has been pressure, during our consultations, to give more time for discussions. But one of the main reasons why we now have a Dockyard structure which all parties agree is not good enough is because, in the past, there have been long periods of discussion and very little action.

The period of consultation has thrown up some new ideas. There has been a proposal that the Dockyards should be run by a Government-owned public limited company. I would be prepared to consider this if our discussions with established companies do not produce an attractive basis for operating our own commercial management proposals. But at this stage I am encouraged by the interest shown by major industrial enterprises.

The proposals to transfer staff to an employing company under our commercial management scheme did not appeal very much to the Trades Unions nor to industry, as being unnecessarily complex. We shall give more thought to this before legislation is introduced.

Many have argued for a Trading Fund freed from the Civil Service. I do not believe that it is possible to create a Trading Fund which will provide all the freedoms necessary for the Dockyards to operate at full efficiency.

The decision for the future has now been taken. Discussions will go on and plans will be made to ensure that it is successfully achieved. Over the page I have listed some key points which I would like to put on record.

The time between now and the start of commercial management is very important to everyone. I am encouraged that the need for change has been widely accepted. The first step towards this is to make ourselves more efficient – now.

If you make the personal commitment, with your Unions, and are determined to make a success of this change, the rewards could be what we all want – the most worthwhile basis for the future of the Dockyards and the best possible support for the Royal Navy and all that means to our national security.

Determination to succeed now and to become competitive is the best guarantee for the future.

Secretary of State for Defence July 1985

NEED FOR CHANGE

The need for a significant change in the structure of the Royal Dockyards has been generally accepted during the discussion period.

COMMERCIAL MANAGEMENT

Legislation will be introduced early in the next session of Parliament to achieve a start not later than 1 April 1987.

OTHER PROPOSALS

While there has been a majority view in favour of a Trading Fund, this would not create the most effective and efficient commercial operation. Neither would the fund give local managers the essential freedoms.

TERMS OF EMPLOYMENT

Further thought is to be given to the proposal that to introduce commercial management, staff would be transferred into an employing company.

NATIONAL SECURITY

Claims have been made that national security, in particular the nuclear deterrent, will be put at risk by commercial management. The Navy Board does not accept this view.

ROYAL NAVY

The Royal Navy also supports the commercial management decision in its own interests and those of the Dockyards.

FOREIGN INTEREST

We will ensure that there will be no foreign control or significant influence.

COST SAVINGS

Under commercial management it is not inevitable, as some critics argue, that the cost savings will inevitably come from job losses. An efficient Dockyard will be best able to attract additional work – and the jobs that that would bring. It is the best way forward to secure maximum benefits for Plymouth and Dunfermline.

Prepared by MOD CS(REP S)PG4 1985

THE FUTURE OF THE ROYAL DOCKYARDS

COMMERCIAL MANAGEMENT – THE TIMETABLE

Outline sequence of events
from July 1985
to Vesting Day April 1987

COMMERCIAL MANAGEMENT

'Go ahead' for commercial management

In a statement to the House of Commons this week, Mr Michael Heseltine, Secretary of State for Defence, announced that the Government had decided to pursue the commercial management option for the Royal Dockyards. The target date for the start of these new arrangements – Vesting Day – would be 1 April 1987.

Letters to staff

The Secretary of State has written to all Naval Base staff, and to CED staff outside Rosyth and Devonport. He has explained his response to the consultations which have taken place since the publication of the Defence Open Government Document on April 17.

What next?

This timetable has been prepared by the Dockyard Planning Team (DPT), the group set up in the Ministry of Defence to oversee the consultation period and co-ordinate the implementation of the Government's decision. It shows what is likely to happen over the next two years, and when.

Further consultation planned

Trades Unions will be fully consulted throughout the transition to commercial management. As decisions on particular issues are reached, the people who are affected will be informed.

Personal queries

Many people in the Dockyards and other Naval Base departments will have questions about their personal circumstances, and what options might be open to them. Every effort will be made to answer these questions as soon as possible but, as the timetable shows,it may be at least a year before many of them can be answered in detail. The general arrangements for the future of employees were outlined in the consultative document published with the Defence Open Government Document in April.

Information

At regular intervals throughout the transition period the DPT will produce a digest of progress on major issues; Naval Base and Dockyard management are taking steps to ensure that there is a rapid flow of information at local level.

Efficiency Measures

Quite separately Dockyard Managements have announced a variety of measures aimed at improving efficiency; these will continue.

Dockyard Planning Team
Northumberland House
Northumberland Avenue
London WC2N 5BP

COMMERCIAL MANAGEMENT – THE TIMETABLE

The principal target dates in the programme – July 1985 to April 1987

JULY 1985

- Secretary of State announces decision to proceed to Commercial Management.

SUMMER 1985

- Consultations with Trades Unions on MOD Customer Organisation, which is to be the main point of contact between the Navy and the commercial manager.
- Start asset valuation. Consultant valuation experts visit all parts of the Dockyards to prepare inventories.
- Produce prospectus. Other consultants will visit parts of the Dockyards to produce commercial information on the operation and organisation of the Dockyards.

AUTUMN 1985

- Proposals on preference exercise put to Trades Unions.
- Begin build-up of Customer Organisation. Some staff and functions transfer within CED Headquarters at Bath.
- Enabling legislation introduced into Parliament.
- Initial visits to Dockyards by prospective commercial managers. Meet Trades Unions. Set out programme for further visits.

WINTER 1985/86

- Director General Ship Refitting appointed to head Customer Organisation.
- Start preparation of detailed contract documents.

SPRING 1986

- MOD select suitable companies to tender for contract.
- Issue pension proposals to Trades Unions.
- Decide preferred division of responsibilities between Naval Base departments and commercial operator.
- Invite companies to tender for contracts.

SUMMER 1986

- Tenders returned; start evaluation.

AUTUMN 1986

- Re-organisation of Naval Base arrangements under way.
- Select commercial managers.
- Detailed discussions between Trades Unions and commercial managers start.

WINTER 1986/87

- Sign contracts.
- Finalise Naval Base arrangements.

SPRING 1987

- Commercial manager's staff start working in parallel with existing management.
- Form new Dockyard Companies.

APRIL 1987

- Vesting Day.
- Run down remaining CED Headquarters staff.

MOD CS(REP S)PG4 1985

FINAL DRAFT

DRAFT STATEMENT - 23RD JULY 1985

With permission, Mr Speaker, I should like to make a statement about the Royal Dockyards at Devonport and Rosyth.

On 17th April I outlined a number of options for the future management of the Dockyards which have an annual turnover of over £400 million.
They ranged from a trading fund in the public sector to full privatisation.

I said at the time that the Government preferred strategy was for a scheme of commercial management and I initiated a period of consultation with a view to a final decision before Parliament rose for the Summer Recess.
I have now had the opportunity to consider the many representations submitted during the consultative period, including the timely reports of the Public Accounts Committee and the House of Commons Defence Committee.

There is almost unanimous agreement that a significant change is needed in the way that the Dockyards are run.

Indeed the House will be aware that action has been called for in reports associated with the Mallabar Committee in 1971, with Hughes in 1973, with Brightling in 1978 and with my Hon Friend the Member for Ashford in 1980.

Last year we had the PAC stating that:

"We regard determined - and if need be radical - action as essential to resolve the fundamental issues still outstanding".

But little has happened as a consequence of the reports as there was no agreement as to how to proceed.

The option of a Trading Fund would not in the Government's view go far enough in freeing management and work force from the restrictions and interference of Government.

Full privatisation today on the other hand would leave the Government with insufficient influence over a major establishment in the defence field at a time of considerable transition.

Commercial management on the other hand has the advantage of freeing the local management from the more restrictive public sector constraints, of enabling the private sector to seek to expand the opportunities in the areas concerned whilst retaining a significant degree of accountability to the Royal Navy and particularly of securing a climate of maximum competition.

The option of commercial management remains therefore the Government's preferred solution and we intend to proceed along these lines.

I should tell the House that I am much influenced by the fact that this is also the preferred solution of the Navy itself.

The Government is convinced that the right way ahead is to retain ownership of the fixed assets and to bring in commercial management to run them.
I therefore intend to seek competitive tenders from competent British companies to manage the Dockyards.
These tenders, which would be for a period of some years, would be evaluated for their management and pricing proposals and would be expected to contain a strong incentive element.
I am encouraged by the number of companies who have shown interest in these proposals, including those of the stature of Babcocks, Balfour Beatty, Costain, Plessey, Trafalgar House, the Weir Group and other major industrial concerns acting either alone or in consortia.

I hope to introduce the necessary legislation as early as possible with the intention of introducing commercial management no later than 1st April 1987.

Regardless of the longer-term management structure for the Dockyards there must be improvements in efficiency in the Dockyards now.

These will involve reductions in jobs.

We believe that the majority of these will be achieved by means of natural wastage and voluntary redundancy.

Compulsory redundancies will be kept to the minimum possible.

I should also draw the House's attention to the fact we are making available to the Trade Unions today a Consultative Document proposing how best we might improve efficiency in the Marine Services organisation.

In view of the extra work associated with the Trident programme the problems at Rosyth will be relatively small and shortlived.

But there will be a special problem at Devonport.

We have already embarked on a programme to help.

We have set up a Devonport Development Unit which will be the focal point for the activity necessary to generate new jobs, and I have announced our immediate intention to make available for development two small but significant areas of land in prime positions in the City.

My Department is examining its expenditure profile with a view to identifying any opportunities for expanding local commercial activity.

We are looking urgently at the potential of the historic and attractive site at Royal William Yard for development and the creation of employment.
It should also be possible to identify other opportunities for expansion.

Mr Speaker, each dockyard will have a core programme of essential work as the basis for its long term future.
What commercial management will ensure is that that work is carried out in as cost effective a way as possible and that, through greater efficiency, the dockyards are in a position to win orders in a wider market than at present and expand their activities.

ECON POL: Privatisation: Pt 12

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-93XXX02XX 218 6169

D/S of S/PQ2959D

23rd July 1985

Dear Tim -

I enclose a copy of the latest draft statement which my Secretary of State proposes to make in the House this afternoon on the Royal Dockyards at Devonport and Rosyth.

A copy of this letter also goes to Rachel Lomax (Treasury), Callum McCarthy (Department of Trade and Industry), Len Appleyard (FCO), David Normington (Employment), John Graham (Scotland), Miss Janet Lewis-Jones (Lord President of the Council), David Beamish (House of Lords), David Morris (Lord Privy Seal).

Yours
D J Woodhead

(D J WOODHEAD)

T Flesher Esq
10 Downing Street

DRAFT STATEMENT - 23RD JULY 1985

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I have now had the opportunity to consider the many representations submitted during the consultative period.

There is almost unanimous agreement that a significant change is needed in the way that the Dockyards are run.
Indeed the House will be aware that action has been called for in reports associated with ? Mallabar Committee, with my Hon Friend the Member for Ashford and with the PAC only last year.
But little has happened as a consequence of the reports in 1980 as there was no agreement as to how to proceed.

The option of a Trading Fund, would not in the Government's view go far enough in freeing management and work force from the restrictions and interference of Government.
Full privatisation today on the other hand would leave the Government with insufficient influence over a major estabalishment in the defence field.
Commercial management on the other hand has the advantage of freeing the local management from the more restrictive public sector constraints, of enabling the private sector to seek to expand the opportunities in the areas concerned whilst retaining a significant degree of accountability to the Royal Navy.

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I therefore intend to seek competitive tenders from competent British companies to manage the Dockyards.

These tenders, which would be for a period of some years, would be evaluated for their management and pricing proposals and would be expected to contain a strong incentive element.
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These will involve reductions in jobs.
We believe that the vast majority of these will be achieved by means of natural wastage and voluntary redundancy.
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But there will be a special problem at Devonport.
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We have set up a Devonport Development Unit which will be the focal point for the activity necessary to generate new jobs, and

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We are also looking urgently at the potential of the historic and attractive site at Royal William Yard for development and the creation of employment.

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SRWAGA

File

bc: Nick Owen

10 DOWNING STREET

22 July 1985

From the Private Secretary

Dear Richard,

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

The Prime Minister has seen your Secretary of State's minute of 16 July. She agrees that the Government should press on with its proposals for commercial management of the Royal Dockyards. She was unclear, however, about the structure of the managing company. Is it to be a company which employs the dockyard workforce or an operating company to which your Secretary of State would appoint management? She hopes this will be made clear in the statement, a draft of which she would like to see before it is made.

I am copying this letter to Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

Richard Mottram, Esq.,
Ministry of Defence.

889

NBPM

AT

22/7

~~CCNO~~

PRIME MINISTER

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

With AT?

I have seen Michael Heseltine's minute of 16 July.

I have no objection to his plans for implementing Commercial Management in the Dockyards. I do want however to put up a marker that I hope we can have a full collective consideration in due course of the issue of funding the payments for future pensions (paragraph 6 of Michael's minute). This matter raises some important points of principle and was not settled in our earlier discussions in E(A).

/ I am copying this to other members of E(A) and Sir Robert Armstrong.

22nd July 1985

R N E

013/106

RESTRICTED
MANAGEMENT IN CONFIDENCE

CC MO

NDPM

PS 19/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Main Building
Whitehall
London
SW1A 2HB

19 July 1985

Dear Michael

noted PM (18/7/85)

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

Thank you for your letter of 16 July in which you propose to press ahead with the introduction of commercial management in the Dockyards and to make an appropriate statement in the House next Tuesday.

I note what you say about the outcome of your consultations over the last three months, and that you are still of the view that the introduction of commercial management offers good prospects for greater efficiency and savings. There are of course many detailed points still to be settled - including the proportion of the naval refit programme that should be put out to competition, the form of any new pension scheme, and the nature and type of employing or similar companies. These are all decisions on which Treasury officials are, and must continue to be, closely involved. While these points remain to be settled, you will obviously not want to give any explicit commitments in your statement to the House.

You will no doubt want to present commercial management as attractively as possible. But the earlier E(A) discussions did not of course rule out the possibility of privatisation at a later stage; no doubt the statement will be consistent with keeping later options open.

RESTRICTED

MANAGEMENT IN CONFIDENCE

Privatisation
(Econ Pol) Pt 12

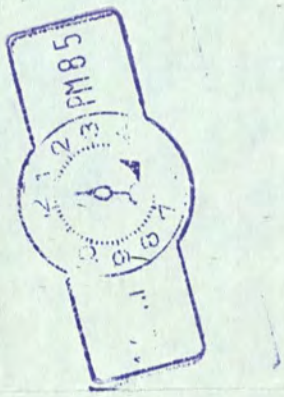
The idea of bringing individuals directly into the Devonport company (your paragraph 7) is new, and raises questions about the status of the company which would result, and about how it would be financed. It may be possible to resolve these but I firmly believe it would be wrong - without further discussion - to mention the possibility in your statement.

With these provisos, I am content for you to make a statement on the lines you propose. I should be glad however to have an opportunity to comment on it in advance. The question of pensions (paragraph 6 of your letter) is something we have already agreed to settle in separate discussions later.

I am sending copies of this letter to members of E(A) and to Sir Robert Armstrong.

Yours ever Peter

PETER REES



10 DOWNING STREET

Prime Minister (1)

(i) Agree to Heseltine moves ahead with contractorisation?

(ii) Request clarification in the statement of how contractorisation would work?

(iii) Ask to see a copy of the statement?

AT
18/7

Yes mt

CONFIDENTIAL - MANAGEMENT IN CONFIDENCE

MR TURNBULL 18 July 1985

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

Michael Heseltine's note (16 July) is rather cryptic on the important question of who employs the dockyard labour. E(A) considered the employing company concept - a shell which will hold the dockyard labour. Prospective bidders were unclear what this involved, even when it was explained to them.

At paragraph 7, Michael Heseltine now seems to have in mind an alternative - an operating company, which would be a Government-owned plc, to which he could appoint management if he was unsatisfied with the contractors' bids. His concern is that there are only three bidders in prospect for Devonport (Trafalgar House, BAe and Costain) which may reduce to two. MH wants a credible fallback position if he wants to wait for more attractive offers.

The statement ought to make these alternatives clear so that employees know what it is that might employ them. I suggest that you ask for the earliest possible sight of the proposed statement.

Nicholas Owen

NICHOLAS OWEN

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

cc NO

To await PM's Treasury response

AST 17/7

MO 10/2

PRIME MINISTER

FUTURE MANAGEMENT OF THE ROYAL DOCKYARDS

I have now completed the consultative exercise on the future of the Royal Dockyards set in hand on 17th April with the publication of the Defence Open Government Document and my statement in the House. From the views received - from the House of Commons Defence Committee (HCDC) and the Public Accounts Committee, from trades unions and local authorities, and from industry - and on the advice of the Navy Board, I conclude that we should now press ahead with the introduction of commercial management.

2. There has been very little of significance arising from consultation for the purposes of the immediate decision. Understandably the weight of opinion is against the preferred option as most of the reaction has come from those naturally opposed to change. But no one has identified any significant flaw in the proposal. It is certainly without complete precedent and is the least acceptable to the Unions; as a result, its implementation will be more difficult and will increase the need for careful management of the programme.

3. On the other hand, no one has seriously questioned the view that commercial management offers the greatest prospects for efficiency, and the best basis for attracting any available additional work into the Dockyards. The PAC have been critical over the validity of the costs which we have produced to date. From its line of questioning, I would expect the HCDC to draw attention to the potential risks, as they see them, to defence and - in particular - the maintenance of the deterrent but to remain neutral on the central question itself.

4. The final criticism has been that inadequate time has been allowed for consultation. This has been most strongly expressed by the Unions - who will not change their minds however long they are given. The HCDC are also likely to echo the Union criticism but I do not believe that three months has allowed inadequate consultation. No one seems to have recognised that the proposals have in fact been in the public domain for many months following the leak of the original interim report.

5. The Navy Board has re-examined the proposals and concluded that commercial management of the Royal Dockyards still offers the most advantages for the Navy - and the best prospects for the long term future for the Dockyards. They recognise that the change may provoke industrial disruption. This might last for some time and have a visible effect on the availability of the

Fleet. The Navy Board believes - and I agree - that this is a price we may need to pay to secure the long term gains which my scheme offers.

6. I should also remind colleagues that the financial advantage to the Defence budget will depend on a PES transfer to compensate for the payments we shall have to make in the contract for the future pensions of the work force. We agreed in our earlier discussions that this point should be settled at an appropriate time in a future PES cycle - but I should now remind colleagues that the change in management of the Royal Dockyards is probably the biggest administrative upheaval faced by the Navy in peace since the war; it would not be right for the Defence budget to get no benefit from it.

7. My main concern at this stage is the degree of commercial interest; Rosyth has attracted sufficient companies for me to have confidence that there will be effective competition for the selection of commercial management. Devonport presents a bigger problem and I would not wish to see any falling off in the presently expressed level of interest in bidding for the contract. We have interest from a number of significant companies and this will provide the necessary competitive process. I would wish to introduce commercial management at both Yards in any case and I therefore intend to keep open the

possibility of inserting the necessary commercial skills into Devonport - perhaps by the direct appointment of individuals into the company to which we shall be transferring the work force.

8. In this way we shall be able to keep up the competitive pressure - and by maintaining our options increase the pressure on the bidders to bid competitively.

9. My intention is to make a statement in the House announcing our decisions on Tuesday 23rd July and I will assume the agreement of my collegues if I do not hear further by Friday 19th July.

10. I am sending copies of this minute to others members of E(A) and to Sir Robert Armstrong.

Ministry of Defence
16th July 1985

Britoil

PRESS NOTICE

July 12, 1985

BRITOIL plc INTERIM RESULTS
RECORD PRODUCTION IN FIRST HALF OF 1985

The Board of Britoil plc announces the interim results for the half year ended 30 June 1985.

	6 Months Ended 30.6.85	6 Months Ended 30.6.84
PRODUCTION		
Crude Oil (million barrels)	32	29
Gas (billion cubic feet)	46	41
FINANCIAL	£ Million	£ Million
Turnover	968.1	645.9
Operating Profit	364.1	282.1
Net Interest (Payable)/Receivable	0.6	(2.1)
Profit on Ordinary Activities Before Taxation	364.7	280.0
Taxation		
Petroleum Revenue Tax		
- excluding safeguard	(206.6)	(165.8)
- safeguard	8.9	15.6
Corporation Tax	(75.6)	(66.4)
Profit for the Financial Period	91.4	63.4
Dividends	(20.1)	(16.5)
Amount set Aside to Reserves	71.3	46.9
Earnings per Share	18.19p	12.66p
Dividend per Share	4.00p	3.30p

The Board have decided to pay an interim dividend of 4.00p per share. Except in the case of the shares which are to be the subject of HM Government's proposed Offer for Sale, payment will be made on 1 October 1985 to shareholders on the register at close of business on 2 September 1985.

In connection with HM Government's offer for sale of its remaining ordinary shares in the company, the Board is making a forecast of profit for 1985. On the bases and assumptions set out overleaf the Board is forecasting profit before taxation of £693 million, profit after taxation of £190 million, and earnings per share of 37.8p. In the absence of unforeseen circumstances the Board expects to recommend a final dividend of 9.00p, making a total dividend for the year of 13.00p per share.

Britoil plc
150 St. Vincent Street, Glasgow G2 5LJ Tel:041-204 2566 Telex 777633

Profit Forecast: Bases and Assumptions

The forecast of profit before taxation, profit after taxation and earnings per share for the year ended 31 December 1985 has been prepared on the following bases and assumptions:-

(a) Production from each field for the remainder of 1985 will be in accordance with forecasts made by the Board on the basis of information from operators and on the basis that there will be no significant disruption to such production whether by reason of mechanical fault, industrial action, government restrictions, weather or otherwise.

(b) Oil sales from July to December 1985 will give rise to an average sterling realisation of £20.00 per barrel.

(c) The US dollar/sterling exchange rate at 31 December 1985 will be $1.30/£1.

(d) The following average interest rates for 1985 will prevail: UK base rate, 12 per cent, US prime rate 10.25 per cent and Eurodollar rates 9 per cent.

(e) Inflation for the whole of 1985 will be 7 per cent in the UK and 4 per cent in the US.

(f) There will be no significant reduction between 31 December, 1984 and 31 December, 1985 in Britoil's estimate of reserves of each field (other than through production) occasioning higher than expected charges affecting profits after taxation. There will be no significant impact on the 1985 results of forthcoming redeterminations.

(g) There will be no adverse reassessment in the remainder of 1985 of Britoil's plans to appraise or develop petroleum discoveries which were included in fixed assets at 31 December, 1984, occasioning a charge to profits.

(h) There will be no unanticipated changes for the remainder of 1985 to current fiscal regimes and the rates of royalty and taxation.

(i) There will be no change to Britoil's accounting policies as adopted in its 1984 accounts.

Further enquiries to: R Speirs
Finance and Planning Director
01-409-2525

I Stewart
Press Office
01-409-2525

THE SIX MONTHS' HIGHLIGHTS

* Turnover increases to £968.1 million. Revenue from equity production at £775.6 million is up £143.7 million (23%) on the 1984 half year. The remainder of the increase is due to sales of purchased petroleum at £192.5 million (£14.0 million in 1984).

* Pre-tax profit increases to £364.7 million, up £84.7 million (30%) on the 1984 half year, and after-tax profit to £91.4 million, up £28.0 million (44%).

* Oil production (including LPG and condensate) averages 178,300 barrels per day (157,800 barrels per day in the 1984 half year) and gas production 256 million cubic feet per day (226 million cubic feet per day in the 1984 half year).

* Is acquiring interests in 23 UK landward licences, including the Humbly Grove oil field and the Horndean and Herriard oil discoveries, and 3 UK offshore licences, including the Glenn field, from Hadson Petroleum International plc.

* Farmed in with an initial 16.5% interest to Texaco operated block 3/4a and the option of a further 33.5% interest in a development. Interests in blocks 3/13a, 14/10a and 214/27 also acquired by farm-in.

* As operator, commenced the assembly of the Clyde jacket and completed water injection drilling at the Beatrice 'C' site. First production achieved from the partner-operated Statfjord 'C' platform.

* Maintained position as one of the most active UKCS explorers, involved in a total of 19 wells spudded. Awarded, with partners, 19 blocks in the Ninth Round.

* Further expansion in the US giving Britoil close involvement with two more companies making four in total; an agreement signed with Freeport-McMoRan Inc. to acquire a 25% interest in assets recently acquired by them from Midlands Energy Company; an agreement for a joint three year exploration programme signed with the Williams Exploration Company.

* Other overseas activities continue to expand - licences awarded in Thailand (onshore near Bangkok), the Netherlands (offshore blocks F/15a, K/4b, K/5a and K/16) and Norway (offshore block 25/7). The Thai licence is Britoil's first Far Eastern operatorship.

* Gas discovery made on Kangean block in Indonesia.

NOTES FOR EDITORS AND ANALYSTS

1985 INTERIM RESULTS: COMMENTARY

1. The following table set out the daily average field by field (in aggregate for the US) production rates attributable to Britoil in the 6 months ended 30 June 1985, the 6 months ended 30 June 1984 and the 12 months ended 31 December 1984.

Oil Production (including LPG and Condensate)	6 Months to 30.6.85	6 Months to 30.6.84	12 Months to 31.12.84
		barrels/day	
Thistle	14,500	16,400	16,500
Beatrice	15,900	10,000	12,900
Deveron	900	-	300*
Dunlin	5,400	7,100	6,300
Ninian	48,500	54,600	53,200
Statfjord	26,100	22,400	24,400
Murchison	25,100	29,100	29,000
South Brae	19,300	16,700	17,000
Hutton	11,600	-	5,300*
Condensate from Viking and Victor	900	900	700
Margham	8,600	-	1,200*
USA	1,500*	600*	1,200*
	178,300	157,800	168,000
NGL's included in the above	7,000	6,600	7,000
Gas Production		million cubic feet/day	
Viking	188	211	154
Victor	45	-	12*
Associated Gas (UK)	8	10	10
USA	15*	5*	14*
	256	226	190

* These fields were not in production for the whole period. Actual production has been divided by the number of days in the 6/12 months.

Britoil's share of oil production shown above does not include adjustments which were made in respect of the 1983 Ninian and Murchison redeterminations. Saleable oil production was, therefore as follows:-

	6 Months to 30.6.85	6 Months to 30.6.84	12 Months to 31.12.84
		barrels/day	
Total Production as above	178,300	157,800	168,000
Add Ninian Pay Back Oil**	-	5,300	3,900
Deduct Murchison Pay Back Oil**	(3,200)	(7,200)	(7,700)
Total Saleable Production	175,100	155,900	164,200

** The actual pay back has been divided by the number of days in the 6/12 months.

2. On the UKCS production commenced from the Hutton oil field in August 1984, followed by the Victor gas field and the Deveron oil field both in September. In Dubai the Margham condensate field entered production in October 1984 and was commissioned in December. US oil and gas production increased in the second half of 1984 as a result of the acquisitions made from Hinkle and Murphy. In the first half of 1985 additional US oil and gas production was obtained from the assets acquired from Freeport McMoRan Inc.

3. No redeterminations of equity interests in the company's UKCS fields have been approved since 1983. Under the terms of the 1983 Ninian redetermination, when Britoil's interest increased from 20.73% to 21.37%, the company received 1.4 million barrels of make-up oil in 1984 (1.0 million in the first half) to complete the pay back. Similarly, under the terms of the 1983 Murchison redetermination, when Britoil's interest was reduced from 27.92% to 24.98%, the company surrendered 2.8 million barrels of make-up oil in 1984 (1.3 million in the first half) and 0.6 million barrels in the first half of 1985 to complete the pay back. New redeterminations are now in progress affecting the Ninian, Dunlin, Murchison, Hutton, and Statfjord fields, while South Brae is being unitised.

4. From 1 June 1985, the company assumed the responsibility for the disposal of the UKCS crudes previously traded by BNOC as participation crude. Reflecting the current market practice, the company is now settling prices for its contract sales on a monthly rather than quarterly basis. A significant proportion of availabilities has been sold on the spot market. Direct marketing of NGLs from the UKCS, which commenced in the first half of 1984, is now firmly established. Condensate from the Margham field in Dubai has been marketed on a spot basis.

5. Operating profit has increased to £364.1 million (£282.1 million in 1984) reflecting the higher oil production, despite a larger write-off in respect of general exploration costs and the completion of pay back under the 1983 Murchison redetermination. A currency loss of £9.6 million has been charged in arriving at operating profit calculated as follows:-

	£ million	£ million
Unrealised gain on restatement of dollar denominated loans	33.6	
Less: Unrealised loss on restatement of the net investment in a dollar denominated subsidiary offset in reserves	(12.5)	
Net gain		21.1
Less: losses on dollar denominated deposits		(30.7)
Net loss chargeable to Profit and Loss		(9.6)

6. The average sterling realisation per barrel in the six months to 30 June 1985 was £22.71 compared with £21.30 in the first half of 1984, the fall in dollar oil prices being offset by the fall of sterling against the dollar

	Six Months to 30.6.85	Six Months to 30.6.84
Average dollar oil price (BNOC Brent blend)	$27.48	$30.00
Average dollar/sterling exchange rate	$1.21=£1	$1.41=£1

7. The increase in the PRT provision from £150.2 million to £197.7 million results from the increased production and a decrease in the safeguard benefit available in respect of the company's more mature fields. The six months to 30 June 1984 were the last chargeable period in which safeguard benefit was available to the Murchison and Ninian fields. In the first half of 1985 the Statfjord field received safeguard benefit for the first time. Safeguard benefit available in any year is spread evenly over the two chargeable periods.

8. Despite the fall in the current Corporation Tax rate from 46.25% to 41.25%, the CT charge at £75.6 million was higher than the 1984 figure of £66.4 million. In both years provision was made for deferred liabilities at 35%.

9. The cost of exploration activity amounted to £109.8 million (£77.8 million in 1984), of which £65.1 million related to the UKCS (£63.1 million in 1984) and £44.7 million to overseas (£14.7 million in 1984). A total of £83.1 million (£51.4 million in 1984) was written off to Profit and Loss Account.

10. As a result of high tax payments and increased capital expenditure, particularly on acquisitions, a cash deficit arose in the period of £66.4 million (£2.6 million in 1984)

11. During the first half of 1985, the Directors approved the issue of an additional 1,562,043 ordinary 10p shares in the company bringing the total issued to 502,441,005. The shares were allocated to eligible employees under the provisions of the company's profit share schemes.

Lazard Brothers & Co., Limited

21 Moorfields
London EC2P 2HT

Telephone: 01 588 2721

Press Release

12 July 1985

DISPOSAL OF GOVERNMENT'S RESIDUAL HOLDING IN BRITOIL:
PUBLICATION OF PATHFINDER DOCUMENT

Following the announcement by the Financial Secretary to the Treasury, John Moore MP, on 14 June 1985, a "pathfinder" version of the Britoil Offer for Sale document is today being published. This is being made available to commentators, analysts, stockbrokers and other professional investment advisers.

The pathfinder describes Britoil's development since privatisation and reviews the Company's present activities and prospects. It gives the latest information on the Company, including its 1985 interim results which are also announced today. The pathfinder also contains forecasts of profits and dividends for 1985.

The pathfinder also gives details of the Offer. Existing shareholders will be given preference in allocation of one share for every five held immediately prior to impact day. Britoil employees will also be given special treatment. A proportion of the Offer is expected to be placed firm with UK institutions. As already announced, a further proportion will be sold overseas.

Subject to market conditions, the Offer is now expected to go ahead at the end of the month.

Lazard Brothers contact point:

Marcus Agius 01-588 2721

cont...

NOTES FOR EDITORS

1. The Government announced on 2 May its intention of disposing of its minority shareholding in Britoil later this year. Lazard Brothers & Co., Limited has been appointed to advise H M Treasury on this sale.

2. The Financial Secretary to the Treasury announced further details of the arrangements for the sale on 14 June, including that the Offer would be at a fixed price and, subject to market conditions, would take place later during the summer. He also said that a "pathfinder" document would be published some weeks before impact day.

252/06

cc NO

file

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

11 July 1985

Dear Andrew

THE SUCCESS OF PRIVATISATION

E(A)(85)26 said that the Chancellor had asked the Financial Secretary to consider how best to present the arguments in favour of extending the privatisation programme to natural monopolies. The Financial Secretary is speaking to a City audience shortly about privatisation and you and other colleagues might like to see the attached speech he has prepared. It sets out in some detail the achievements of privatised companies and the case for extending privatisation to natural monopolies.

I am sending a copy of this letter to the Private Secretaries of E(A) Members and to Sir Robert Armstrong.

Yours sincerely

FPBogan

MISS F P BOGAN
(Assistant Private Secretary)

THE SUCCESS OF PRIVATISATION

1. Privatisation is bringing about a fundamental change in the operation and efficiency of key sections of the UK economy. Its success - like the sale of council houses - is self-evident. Its previous opponents are trying to climb on board. The policies that we have developed are being increasingly imitated throughout the world. I want today to set out what our achievements have been to date, the reasons why I think that we have been so successful, and our plans for the future.

Background

2. When we assumed office in 1979, the state-owned industrial sector in Britain accounted for no less than 10½ per cent of Gross Domestic Product (GDP). The growth of creeping state corporatism had meant that the number and spread of major industries and companies in Government hands was at its highest ever peacetime level. These industries and companies employed around 1¾ million people; their turnover amounted to £55 billion; and their annual investment was around £7½ billion. The last two figures are particularly significant. Because of the inefficiencies inherent in state ownership and because of the constraints

put on the industries, the business activities of these industries were being held-back. The level of their investment was at times governed more by the state of the public sector borrowing requirement than by the realities of the market place. Depending on the state of the economy and political imperatives, feast or famine alternated with the result that investment at times was too little, too late, and in the wrong place. And the effect? The United Kingdom's overall economic performance was diminished, individual achievements within the industries were seen to count for very little, and industries' customers suffered. Depressingly, until we came to office in 1979, the process of increased state intervention seemed irreversible.

3. I have rehearsed previously how this state of affairs had come to pass. The founding-fathers of nationalisation mistook idealism for reality and failed to see that running an industry involved very special skills and disciplines quite different from those needed to organise a Trade Union or a political rally. They were quite frankly experimenting. Not in a laboratory but with a key section of the British economy.

The results were poor returns on capital, low productivity, high costs and prices, and inadequate service. The experiment clearly failed.

4. Despite this, the Labour Party continued to argue in 1979 for more state control, more intervention, and, in practice, for more interference. Their aims were straightforward:

[Labour Party Campaign Handbook]

> "we need to extend public ownership into profitable and dynamic manufacturing industry if we are to regenerate British industry"

It does not take an economist - or any special expertise - to know that the results would not have been greater profit and dynamism but losses and inertia. The public understood this and voted accordingly.

Privatisations to date

5. We came to office in 1979 determined to invigorate and liberate the state sector. To date, we have privatised twelve major companies and a number of other enterprises. State shareholdings in private sector

companies have also been substantially reduced. Around 400,000 jobs have been transferred to the private sector. The number of shareholders in the United Kingdom has probably been doubled. A third of a million employees have acquired shares in the firms in which they work. And the Exchequer has benefitted from over £6 billion of receipts which within our overall economic framework have helped to keep government borrowing lower than it would otherwise have been.

Reasons for Success

6. I believe that privatisation is proving successful because our policies are based not on dogma but on common sense. First and foremost, Governments are not very good at owning or controlling businesses. The priorities, the pressures, and the time horizons are entirely different. Lord King, who in preparing BA for privatisation has turned it into one of the world's most successful airlines, has recently summarised why this is so:

[Price Waterhouse Lecture, Cardiff 15 May 1985]

"The role of the politician should not include that of industrialist because he has a perfectly natural conflict

of interest. For instance, it is inevitable that a Departmental Minister and his civil servants will interfere in the conduct of the business for which they have been made responsible. They will do this - not because of a form of perverseness - but because they, and perhaps the Treasury, may have a different use for available funds than satisfying an individual application from one of their businesses. This could be to the considerable detriment of a particular company and its customers and - in due course - to the competitiveness of the industry itself."

Speaking as a politician, I absolutely agree.

7. We have made great strides since 1979 in improving the performance of state-owned industries whether or not as part of the preparation for privatisation. But I am convinced that state ownership is never the preferred alternative. Public sector culture is quite different from that found in the private sector. Marketing and risk-taking are not skills which the public sector always values highly. We are trying

through performance-related pay schemes and other means to improve incentives for those who are running the industries which must at least temporarily stay in the public sector but the results can never be more than second best in the long-term.

8. It is also true that public ownership generally leads to confused objectives for a business. Social and commercial objectives are intertwined to the detriment of both. Costs and benefits are blurred by cross-subsidy and management responsibilities become opaque and confused. Privatisation liberates managers and employees and allows them to reach their full potential.

Objectives of privatisation

9. In developing our policies we have taken care to be as practical and pragmatic as possible. Our policies have been specifically designed to further a number of objectives. They are designed to lead to greater efficiency and this is demonstrated by the subsequent achievements of the companies which we have already

sold. They reduce the role of the public sector and provide substantial sale receipts. They allow employees to take a direct stake in the companies in which they work and this leads to major changes of attitude. And, importantly, they provide a major stimulus to wider share ownership.

Achievements of privatised companies

10. The success or failure of the policy can best be judged by the effects on the companies themselves. Sufficient privatised companies have now been long enough in the private sector for the proof of the policies to be put to the test. The results in human as well as financial terms are quite startling. The increased turnover of privatised companies is leading to higher profits and more investment which in turn should create more jobs. It is also becoming clear that the attitudes of both employees and management are changing profoundly. For example, involving employees in the ownership of the companies in which they work has given them a direct personal interest in company profitability. Share price graphs are being displayed in company canteens; and trade union negotiators are

starting to cross-examine management about the effect of prospective decisions on the company's share price. The significance of this on the companies' future performance can hardly be over-estimated. But let me quote some specific examples.

The National Freight Corporation

11. The formerly state-owned National Freight Corporation was brought into the private sector in February 1982 by a management-led employee buy-out and is now an employee-owned business. Around half the total work force are shareholders and the value of their shares has increased 12 fold in the last three years. Since privatisation, there has been a virtual doubling of investment in the business, the first-ever growth in turnover in real terms, a more than doubling of trading profits in two years, and an increase of total staff numbers after years of decline. The NFC is now pursuing an expansionist business policy at home and abroad fuelled by a £500 million investment programme planned over the next five years.

12. A business like the NFC whose essential function is service relies enormously for

its success on the attitudes of its employees. If the employees believe in the company, so will the customers. When the NFC was state-owned, its annual corporate plans did not even refer to employees, let alone emphasise their role. Nowadays, the company's employee-shareholders are positively encouraged to tell top management their views. The company's annual plans fully consider implications for employees of all major decisions. What a telling testament to a remarkable change of emphasis! No wonder, the NFC's industrial relations are now excellent.

13. This is fine for the NFC and its employees, but how does it benefit the rest of Britain? The answer is straightforward. Because NFC is Britain's biggest road freight, storage and travel business, a successful NFC helps create a successful Britain.

British Telecom

14. Consider British Telecom. The BT sale was not only the largest ever and most successful public flotation in the world, it is leading to a revolution in the development of telecommunications in the United Kingdom. Our policies have opened

up telecommunications markets to new entrants. They have actively promoted the emergence of a direct network competitor to BT. They have created an explicit regulatory environment via the licensing system with the powers of OFTEL, the MMC, and, in the last resort, the Courts to police it. They have subjected BT for the first time to the full constraints of competition and fair trading legislation. They have ensured that its regulated tariffs will be cut on average by at least three percentage points in real terms each year for the next five years. They have allowed BT access to the world's capital market. And they have brought about dramatic changes within BT.

[Quilter Goodison Lecture 1985]

15. Sir George Jefferson, the Chairman of BT, has graphically set out the effect that privatisation has had on his company. Before privatisation, BT was an administration, not a business. Its staff were effectively district commissioners administering a government-controlled service through a board consisting principally of part-timers who tried to take quite detailed decisions on most things centrally. By 1980, despite a turnover of around £4 billion and

increasingly diverse customer needs, BT had only one profit centre; its accounts had been qualified for years and were still Civil Service-type cash book accounts. Staffing arrangements, promotion, and pay owed more to hierarchy and ease of negotiation than the desire to motivate people to contribute and to take risks successfully. The commercial development of the business was centred on engineering concepts rather than market and commercial needs. The overall effect was quite clear. The customers certainly did not call the tune.

16. What has changed? 96 per cent of BT's employees are now shareholders in the business and over 80 per cent have invested significant sums of their own money. In addition, 36 per cent of BT's staff are making substantial monthly savings to buy further share options to add to their holdings. Even one-third of BT's pensioners are directly shareholders in BT plc.

17. A cultural revolution is occurring. The old vertical hierarchies are being broken down. Methods of appointment and promotion are being changed to emphasise suitability

and ability and managers are being encouraged to manage. As Sir George Jefferson himself says, the qualities of people in the business were generally as good or better than those of their counterparts in the private sector. This does not surprise me and is true in many state industries. But state ownership had never allowed them to realise their full potential.

18. Other privatised companies are also being transformed. Jaguar created 530 new jobs last autumn to meet increased overseas demand and 600 more early this year to increase production yet further. Jaguar's present production figures beat all previous records and it is currently laying plans to double car production by 1990 which will lead in due course to further increases in the workforce. Investment in 1986 is planned to be around 50 per cent higher than it was in 1984. It is this process which taken nationwide in due course will help to reduce the scourge of unemployment. In the longterm, state ownership does not create jobs. It destroys them.

Cable and Wireless

19. Many other examples can be quoted of the dramatic effect that privatisation has had on attitudes and performance. It has released management from all kinds of artificial restraints and red tape. For example, Sir Eric Sharp, the Chairman of Cable and Wireless, has commented that the freedom to negotiate deals and joint ventures as a principal with other Governments and major companies was invigorating for management and wholly beneficial for the development and growth of his company. I am not surprised. Cable and Wireless recent successes in the People's Republic of China bear witness to this as does their completion in 4 days - from start to finish - of arrangements last year to acquire the Hong Kong Telephone Company. Imagine the time that a nationalised industry, a sponsor Department, and the Treasury would have taken!

20. Cable and Wireless was never allowed to

develop its full potential when in the public sector. The then Chairman told the Select Committee on Nationalised Industries in 1978 that, prior to 1974, his company was instructed not to pursue business "actively" in the UK. This was relaxed in 1974 provided the company "consult the Department about any major expansion or developments of any expansion which might be politically or generally sensitive." It is no wonder that since privatisation in 1981 removed these constraints, turnover has almost trebled, profits nearly quadrupled, and employment is increasing. In terms of market capitalisation, Cable and Wireless ranked number 38 among British companies when it was privatised. It now ranks number 13.

Other achievements

21. Although I do not claim that privatisation is the universal panacea for all ills, it is hard not to find success stories in privatised companies. Privatisation does seems to provide the best basis for secure long-term wealth and employment creation.

22. The Chairman of Amersham International

and Associated British Ports have both remarked how the image and standing of their companies has improved after privatisation. As well as producing extra pride in the job, this aids recruitment and helps attract customers. As one Chairman has recently remarked, there are better ways to spend senior management time in business than continually checking Hansard in order to gauge the correct political mood.

Securing the national interest

23. Moving industries from the public to the private sector is a complex process which has led to the development of new skills inside and outside Government. It was no accident that the early stages of the privatisation programme involved virtually self-contained companies already trading on the fringes of the private sector. In order for the programme to move into the heartlands of the public sector, novel techniques have had to be developed to ensure that vital national and public interests could be reconciled with private ownership. The fact that we are now able to do this and to guarantee that the nation

and the consumer are fully protected represents a major advance, the significance of which is not always fully appreciated.

24. Privatised companies are, rightly, indistinguishable in company law from other companies. However, it is possible to circumscribe the framework within which companies operate without in any sense diminishing their independence or blunting their commercial instincts. For example, the license under which British Telecom operates the public telecommunications network within the UK requires it to carry out certain functions which, left to its own devices, an unlicensed private company might not consider worth doing. These include the provision of rural call-boxes and the emergency 999 service. The nature of these non-commercial obligations is made absolutely specific in the terms of the license and, legally, BT has no alternative but to comply. The public interest is thus absolutely safeguarded.

25. A company's internal affairs are regulated by its Articles of Association. It is right and proper that the generality of these articles in privatised companies

shall be the same as in the private sector. However, in certain key limited areas, the national interest - and indeed possibly the interest of the company itself - requires that certain articles shall only be amended with the consent of the Secretary of State. The so-called "special share" arrangements have been developed to secure this in a way which is, I should stress, absolutely consistent with general UK company law. Where these arrangements are necessary, they are tailored to the circumstances of the company concerned and might, for example, protect a company from takeover in the early years of its life, prevent ownership from passing overseas in cases where UK control is seen as being of paramount necessity, or block material disposals of assets without the Secretary of State's consent. In two cases, Cable and Wireless and British Aerospace special share arrangements were inserted after privatisation with the full recommendation of the companies' boards and the approval of their shareholders.

26. The third area where development of policy has made it possible to ensure that non-commercial objectives are sustained is

in subsidy arrangements. For example, some rural bus services in the United Kingdom are only viable if subsidised. It is clearly in the public interest however, that these subsidised services are tailored to the needs of their customers and that subsidy is kept to the minimum consistent with this. We now intend, and are in the process of requiring, that in future subsidies will be subject to competition. Local authorities will be required to advertise their intention to subsidise a service, and to seek tenders in the open market. They will be obliged to accept the lowest tender consistent with the specified standard of service. We are hoping to see lower fares, lower subsidies and better services. What a triumph of practicality over dogma that would be!

27. Here, as elsewhere, privatisation produces transparency. It forces decisions out into the open and lets people see whether something is being done for social or economic reasons. I believe that such transparency encourages sensible decision-taking and advances economic and social objectives.

Extension to natural monopolies

28. Privatisation has proved of such major benefit over the last five years, we have decided that it is right to extend it progressively to the so-called "natural monopolies". These are the monopolies where economies of scale and barriers to entry are such that it would be artificial, wasteful, or impractical to break them up. The cheapest means of producing or supplying a commodity in these circumstances may well be a natural monopoly. We believe that it is possible to privatise natural monopolies in such a way that their customers, their employees, and the economy as a whole will all benefit. The privatisation of British Telecom, with its virtual present monopoly of domestic telecommunications, showed the way. Gas, airports, and, possibly, water are next. Let me explain why.

29. Conventional wisdom was that monopolies were so powerful, so prone to take advantage of their customers, so liable to become fat and inefficient, that the only safe place for them was in the public sector. Only politicians and civil servants could be entrusted with monopoly power because

only they would exercise it with restraint, justice, and good sense. What nonsense this proved to be! Experience over the last forty years has surely taught us that, from the customer's point of view, the State is just as likely to abuse a monopoly position as a private owner. And worse, when it does, despite Ministerial responsibility and Parliamentary accountability, the customer has little effective redress. Contrast the security given by effective regulation such as provided by OFTEL, the MMC, and, as a last resort, the right to challenge abuse directly in the Courts.

30. Although the size and extent of natural monopolies has clearly to be constrained to what is truly "natural", I firmly believe that where competition is impractical privatisation policies have now been developed to such an extent, that regulated private ownership of natural monopolies is preferable to nationalisation. Those who criticise the decision to privatise utilities as being a Treasury-inspired fund-raising exercise have just not considered the facts.

31. First, privatisation increases productive efficiency whether or not a monopoly is involved. Pressures from shareholders looking for a return on their investment - considerably enhanced when these shareholders are also managers and employees - give a clear incentive to privatised companies to organise their internal affairs as efficiently as possible and seek the maximum competitive terms from their suppliers. The enhanced competition amongst suppliers as well as benefitting the privatised company also benefits the UK economy as a whole. Suppliers who fight others for orders are likely to compete more aggressively in overseas markets and also be more likely to seek out technical innovation.

32. Secondly, the extraordinary success that privatisation now has in creating a wide distribution of shares, produces shareholder pressures quite unlike those faced by nationalised industries or conventional companies. The existence of large numbers of shareholders who have both paid for their shares expecting a reasonable return <u>and</u> are customers interested in good service at a fair price

is an irresistible combination and a powerful lobby in favour of both efficiency and price restraint. Giving people shares free in these companies - as some have suggested - would completely negate this effect.

33. Thirdly, private sector companies able to draw on capital markets to finance efficiency or expansion face circumstances different from those faced by industries in the public sector. We have been able to find the finance to allow nationalised industries to invest in worthwhile projects and their Chairmen said last year that the present levels and patterns of investment spending were broadly consonant with the proper development of their businesses. The industries have however not always been as fortunate and I do not blame them if they think that the financial markets are likely to be a surer source of funds over a period of time than the political capital market funded by public sector borrowing.

34. Maybe surprisingly, the counterpart of private sector finance is a continuing discipline which in practice may be far

more effective than that which can be applied in the public sector. State-owned industries escape scrutiny by analysts and bankers, and may fall into the habit of thinking that they have the Government available in the last resort to bail them out. This tends to undermine financial disciplines, financial control, and internal accounting techniques. Privatisation brings with it fundamental improvements in these key areas.

35. Fourthly, the establishment of OFTEL shows how regulatory arrangements can be developed which are tough, transparent, and provide full protection to customers as well as other businesses. Some regulation has however in the past had an undeservedly bad reputation when used insensitively and we have deliberately set out to learn from the experiences of others. We will avoid regulators becoming too associated with any particular company in order to pre-empt "regulatory capture". We will ensure that the regulatory regimes which are adopted will encourage efficiency, and we will make certain that regulation does not stifle innovation and technological advance. I am confident that this can be done.

ture Plans

36. Our future policy on privatisation in the UK is quite straightforward. We will continue to return state-controlled industries to the private sector. We will encourage competition where appropriate but where it does not make business or economic sense, we will not hesitate to extend the benefits of privatisation to natural monopolies. When this is done, we will ensure that they are subject to tough, transparent, effective regulation to the benefit of their customers and the economy as a whole. We will continue to offer incentives to employees and seek their participation in the success of the companies in which they work. We will structure the sales to give the greatest possible incentives to wider share-ownership. And we will use the sale receipts to further our overall economic strategy.

37. By the end of this Parliament we hope that, subject to Parliamentary approval where necessary and satisfactory market conditions, at least another eight major state businesses will have been transferred out of state

control and into the private sector in the full sense. These include the activities of the National Bus Company, British Airways, Shorts, Unipart, Rolls Royce, Royal Ordnance, the British Airports Authority, and the British Gas Corporation. This will mean that, since the programme started in 1979, the proportion of GDP in the hands of state industries will have dropped from 10½ per cent to around 6½ per cent. Compared to 1979, the number of state employees will drop by one-third. Over 600,000 jobs will have been transferred to the private sector. £23 billion of turnover and £3½ billion of investment will be freed from Government control. In the course of two Parliaments, we will have nearly halved Government involvement in state-owned business and liberated a substantial portion of economic activity from suffocation by the State. I have no doubt that the successful conclusion of this Parliament's programme will produce an irreversible shift in attitudes and achievement which will bring lasting benefits to the United Kingdom.

010/104

CC NO

NBPM

NS 4/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

3 July 1985

Dear Patrick

DISPOSAL OF SURPLUS LAND IN PUBLIC OWNERSHIP

Thank you for your letter of 17 June about the initiative to encourage the private sector to identify sites.

I agree with you that in your publicity of the initiative you should make it clear that our efforts are not confined to local authority land. Indeed, I agree that you should publicise in general terms the separate but related E(DL) initiative on the disposal of surplus land by departments and nationalised industries. At this stage I do not think that there should be any mention of our decision to set disposal targets.

I am grateful for your assurance that you can contain the manpower and financial implication of your initiative for the present.

I think it would be helpful if in due course you were to make a progress report to E(DL) on the effectiveness of the initiative to encourage the private sector to identify sites. This would help us to reach a decision on the need for legislation.

I am copying this letter to the Prime Minister, members of Cabinet and Sir Robert Armstrong.

Yours ever
Peter

PETER REES

Econ Pol Pt 12

Privatisation

249/41

CONFIDENTIAL

NBPM

AT 2/7

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

1 July 1985

Dear Andrew

attached

REVIEW OF PRIVATISATION PROSPECTS FOR THE NEXT PARLIAMENT

E(A)(85)10th Meeting invited Departmental Ministers "to review the scope within their responsibilities for privatisation in the course of the next Parliament, and to inform the Chancellor of the Exchequer of the results of their reviews before the Summer Recess". We thought that it might be helpful to offer some comments on the scope of the review and to suggest how the results should be presented.

The purpose of the review is to identify the major privatisation candidates for the next Parliament. The lead time for sales is such that arrangements need to be put in hand sooner rather than later and it is important that the Treasury is given early warning of possible intentions in order that an outline programme can be developed and possible bottlenecks identified. At this stage, our main interest is in privatisation candidates that are likely to lead to public flotations, substantial employee buy-outs, or major trade sales, and I attach a suggested outline of the information that we would find useful. It is important that the exercise is as comprehensive as possible, and then we would be grateful if Departments could be both radical and far-sighted.

I am sending a copy of this letter to the Private Secretaries of Ministers in the Cabinet and to Sir Robert Armstrong.

Yours sincerely

F P Bogan

MISS F P BOGAN
(Assistant Private Secretary)

CONFIDENTIAL

ANNEX

PRIVATISATION REVIEW

SUGGESTED OUTLINE OF RESPONSES

1. Name of Candidate

2. Key data (eg turnover, current profits, asset valuation, manpower)

3. Present position (eg stage reached in consideration of possibilities)

4. Next Steps

5. Need for Legislation

6. Possible Timescale for Privatisation

7. Estimated receipts

SECRET

1. ~~F~~ERB 2. Prime Minister.

3 AT 24/6

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

24 June 1985

Dear Andrew,

Last Wednesday evening the Chancellor talked to Mr A and his colleague about their proposal to bid for company X. Mr. P. Middleton was also present.

The Chancellor told Mr A that he had discussed the matter with the Prime Minister. They were both in no doubt that a bid would be politically embarrassing for the Government, but that Mr A had every right to make one, if he wished. The decision had to be his. It would not be right to give an indication, in advance of a bid, of how the Government might respond in respect of its own shareholdings. That would have to be considered in the light of circumstances at the time.

Mr A's colleague replied that neither he nor Mr A wanted to embarrass the Government. But he hoped the Government had taken full account of the financial advantages of a bid. He was confident that the whole issue would be underwritten in the U.S.

The Chancellor explained that the main problem was the possible damage to the privatisation programme. This has been increasingly successful because it is identified with selling shares to the general public and to

SECRET.

employees.

The possible accusation of selling public assets to the Government's supporters, though untrue, would be a set back. The Government also needed to protect itself against the charge that it had arranged a deal in advance. The Prime Minister took the same view.

The A and his colleagues said that they would reflect on this.

Yours ever

Rachel Lomax.

cc NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Margaret O'Mara
Private Secretary to
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

18 June 1985

NSR

Dear Margaret

TRANSPORT SELECT COMMITTEE: REPORT ON BUSES WHITE PAPER
GOVERNMENT RESPONSE

Further to my Secretary of State's letter of 28 May to the Chancellor, I attach for information the final draft of the Government Response.

We have made a number of minor amendments, partly in response to points made by Ministers in answer to my Secretary of State's circulation of the first draft.

Copies of this letter and attachments go to Tim Flesher at No 10, Private Secretaries to other members of E(A), and to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely

Henry Derwent

H C S DERWENT
Private Secretary

INTRODUCTION

1. The Transport Select Committee's Report on the White Paper "Buses" (Cmnd 9300)* was published in February 1985. The Committee's enquiry reviewed the proposals in the White Paper against the historical background, heard evidence from local authority associations, the trade unions, representatives of the industry, from other interested parties and from Ministers and officials of the Department of Transport. The Committee recognised the problems created by the decline in public transport generally and buses in particular and welcomed some of the likely effects of the Government's proposals, while expressing concern about others. The Committee propose an alternative to the Government's policy of deregulation. The Government is grateful to the Committee for its comprehensive Report.

2. This White Paper sets out the Government's view on the Committee's proposal for an alternative policy and on the major issues discussed in the Committee's Report, and Annex A deals with the many other matters raised by the Committee.

3. A great deal in the report is common ground. The Select Committee and the Government agree on:-

- the need for change to halt the continuing decline in bus services,

- the need for and the possibility of significant improvements in efficiency and productivity and reductions in operating costs and fares;

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*Financing of Public Transport Services: The Buses White Paper. Second Report from the Transport Committee, House of Commons, Session 1984-85. Report and Minutes of Proceedings (HC-38-I) HMSO 1985.

- the need for competition to bring about those improvements; and

- the need for a transparent subsidy system under which the amount of subsidy for each service is clear.

4. The Government intend to deregulate bus services so that operators compete for the custom of travellers, and on unprofitable services the operators compete for subsidy without protection. The Committee propose a very different form of competition.

The Committee's proposal

5. The Committee propose (paragraph 237) a system under which all bus services would be put out to tender by the local authority, so that the successful tenderer would have a guaranteed monopoly for the period of the contract. In this way they envisage that competition for the contract would secure efficiency gains, while profits from letting the contracts on the profitable services could continue to be applied to subsidy to the unprofitable services, and (since the services would necessarily be specified by the local authority, and the fares and fares structure could be so specified) comprehensive timetabling and fare systems would be automatically achieved. The local authority would be required to give proper scope for the development of innovatory services and indeed the Committee regard it as "consistent with the encouragement of new entry on a small scale." (paragraph 235).

6. The system proposed by the Committee has a number of serious disadvantages.

- It would be more restrictive than the system which exists now, since it would eliminate all opportunity for an operator to seek to introduce new competing services during the currency of the contract for the monopoly.

- As the Committee recognise, a major difficulty of their proposal is that it does not retain incentives to operators to innovate. Their solution (that lively and ambitious local authorities might introduce competition between large and small buses for franchises

or even on the road in a duopoly) does not provide a sufficient alternative. It is often outsiders to industries who provide the new thinking for innovation; they are unlikely to see a regime which subordinates their judgement to that of a local authority as one which offers good opportunities for them. Moreover it is exposure to competition that best determines the success or failure of new services.

- A system of exclusive franchises would perpetuate cross subsidy of a non-commercial nature, particularly if the local authority decides to set standard fares at a high level in order to obtain resources for subsidy to less viable routes. This would continue the process of driving away passengers from the busy routes, and accelerate the decline of the industry. As the Government has repeatedly said, this is socially unjust since among the users of the busiest bus routes are likely to be some of the poorer members of the community.

- The Committee's proposal would also put a heavy load on the local authority to specify services and fares, remote from the market test, and the risks of "capture" of the authority by the major operator would remain. The Committee have not been able, in the time available, to consider the practical implications of their proposals. In urban areas, it seems likely that most, if not all, franchises would have to be let simultaneously, because operators in bidding would have to know how much interaction there would be with other services, for example on radial routes, in the town centre or from circular routes, so that they could calculate their franchise bids. It also seems likely that cross boundary services, which frequently serve urban areas, would have to be franchised at the same time. Letting virtually all the contracts at the same time would be a major administrative burden. Moreover, the complexity of marrying together exlusive franchises offered both by Counties and Districts suggests that it would be impossible for Districts to use their powers to support bus operations except through the agency of the County.

7. There is a fundamental difference between those who believe that the interests of the community will best be served by planning the provision of services and the charges to be made for them in conditions

of monopoly, and those who believe that the community will gain most i[illegible] competition in the market between operators striving to meet the needs of the customer, subject to proper safeguards for safety and to arrangements to meet social needs. The Government's policy is of the latter kind, and the Committee's is of the former.

The Committee's Objections to the Government's Proposals

8. The Committee say (paragraph 227) that the Government's proposals are attended by four major difficulties and argue that the efficiency gains will be smaller than the Government predicts. The Government's views on these points are below.

9. The four major difficulties mentioned by the Committee are as follows:-

(1) "They (the Government's proposals) presume, in our view without foundation, that the only benefits of integration or co-ordination which are worth having are those which will emerge quite naturally from the self-interest of competing operators."

10. The Committee argue that there are substantial benefits to be gained from co-ordination and integration, predominantly though not exclusively in larger urban areas. They cite first (paragraph 158) systems of through-ticketing and multi-journey ticketing, such as travelcards. Such schemes can, as the Committee say, increase patronage. But the Government believe that travelcards and other systems of through-ticketing will continue to be very attractive to customers and that will be a strong argument for bus operators to offer them where the market justifies.

11. The second argument the Committee cite (paragraph 159) is that standard fare scales and extensive cross-subsidy are "a legitimate political objective given the fact that it is the democratically elected local political authority which determines the fare structure and could be held accountable for it." It is indeed a cardinal feature of the Committee's proposed scheme that the fare structure could be determined by the local authority.

12. The Government does not however accept that customers' needs for

public transport are best satisfied under a regime in which fare scales are treated primarily as a "legitimate political objective", particularly when that objective is advanced by levying a 'tax' on individuals for no better reason than that they use particular bus services.

13. Indeed, as a general proposition, price controls cannot be seen as being of benefit to the community. The abolition of Resale Price Maintenance has brought significant benefits to the consumer, while the imposition of national price controls to meet temporary economic emergencies has generally distorted and damaged our industries. The Government believes strongly that the bus industry and the bus passenger have much to gain from a system under which fares are set by the market.

14. The Committee also refer to the benefits of co-ordination and intergration in supporting large scale transport investments such as Tyne and Wear Metro. To some extent this has been achieved at the cost of restricting the ability of some travellers to use buses. The Government argues that it is better for travellers to have a free choice from what the market will provide, while accepting that there can be a legitimate case for subsidising efficient rail systems where to do so will gain external benefits within the framework of a competitive bus market.

15. The Committee also refer to the advantage (paragraph 162) of good information services. The present bus industry does not provide actual or potential passengers with sufficient easily understood information about how they can travel from point to point by bus, as a recent report by the National Consumer Council points out. The Government hopes that bus operators collectively, in conjunction with local authorities using the powers proposed in the Transport Bill, will set up a system for the provision of information on travel by bus which will help stimulate bus travel.

16. Finally, on this point, the Committee state that the Secretary of State has implicitly concurred with their view about the importance of coordination, particularly in the conurbations, by excluding London from the deregulation proposals for the time being. They attribute to the Government reasons other than those which Ministers have given for

t policy towards London, and they do not discuss the reasons which the Government has given. The Select Committee are of course free to express their own opinions about the reasons which Ministers give for their policies, but it is at least unusual for them to claim that Ministers are concurring with views from which they have explicitly dissented.

17. The Government remains of the view, which they stated in their White Paper, that while systems of large scale planned public service networks can produce high quality services and connections, the benefits to the passenger will on the whole be better achieved by operators in the market who are alive to the needs of customers and strive to meet them, and by local authorities providing subsidy for any additional services they believe necessary on social grounds.

(2) "They involve the loss of cross-subsidy on a scale which we do not believe it possible to recoup from cost savings even of the order predicted in the White Paper."

18. The Committee discussed extensively (paragraph 96-103) whether preservation of non-commercial cross-subsidy is in principle desirable or not, and appear to accept, in guarded terms, that the higher fares providing the cross-subsidy drive away passengers and thus contribute to the decline in bus patronage; that cross-subsidy may be inefficient; and that it may be unfair.

19. As to the amount of cross-subsidy present in the system, the Committee say (paragraph 95) that it is difficult to come to a precise conclusion. In some rural counties they would expect the benefits of a 30 per cent cost saving to exceed the cost of any lost cross-subsidy, and in others that it would not. They therefore say (paragraph 197) that the magnitude of the services that would be lost through the introduction of competition and the consequent loss of cross-subsidy is difficult to gauge.

20. The Committee believe that it is significant that many of the Shire counties which have submitted evidence have calculated that the alternatives they will face are either service loss or increased direct subsidy. These are certainly matters for concern. It must be pointed out however that measuring cross-subsidy is not straightforward in

practice and is dependent on the method of cost and revenue allocation used. Further, these comments assume that no cross-subsidy will exist for purely commercial reasons. They also do not reflect the likely reduction in costs which will follow deregulation. The Government's evidence pointed out that in many rural areas cross-subsidy is less important than direct subsidy from the county or regional council. In these cases the elimination of cross-subsidy will have less impact. In urban areas with high direct subsidy leading to low fares, cross-subsidy is also less important. It seems probable, in the light of the likely variation in the existing level of cross-subsidy, that there will be variations in the extent to which cross-subsidy will be offset by cost reductions. The Government remains of the view, however, that overall the loss of cross-subsidy should be offset by the gains from the more effective use of direct subsidy for which the Transport Bill provides.

21. Just as non-commercial cross-subsidy has accelerated the decline in patronage; correspondingly, with less cross-subsidy this decline will be reduced. The efficiency gained from competition will further reduce fares and attract more custom. But increased patronage is unlikely to be confined only to the better used services; people will once again get into the habit of using buses as their main mode of transport, and a more general increase in patronage can be expected.

22. It is in part because this general increase in patronage may take some time to flow through that the Government is providing for four years an additional, reducing, transitional grant for local services in rural areas. This grant is of course entirely additional to the substantial level of subsidies already provided by local authorities.

23. It is appropriate at this point to consider the Committee's view on cost savings.

24. The Government has estimated that there is scope for improvements in the efficiency of the industry which would overall reduce costs by up to about 30 per cent, and considers that competition is needed to secure these savings. The Committee doubt whether the evidence supports the Government's estimate. But the Committee's consideration of the evidence is partial.

25. They cite (paragraph 49) the statement in evidence by the Association of County Councils that the difference between public and private operator's costs were 10% at the most. They ignore evidence from the Department (HC 38 viii, paragraph 11) that for instance in Nottinghamshire and Derbyshire the costs of the local independents in receipt of revenue support appear to be 30% less than those of public sector operators. They also cite (paragraph 39) the comparison of operator's costs in the Guildford-Cranleigh area, but fail to mention, as the Department's evidence does, the finding that the average difference in unit costs between Independents and the NBC Companies was of the order of 20%; and that the major factor underlying this was the higher number of staff per vehicle, and not earnings, which were comparable.

26. The Committee also dismiss (paragraph 51) the significant improvement in Midland Red (West) productivity on the grounds that it was not the effect of deregulation on the Hereford and Worcester Trial Area where the company operates which led to the improvement, but the fact that it had previously been essentially an urban operating company with working agreements related to the Birmingham labour market and that the process of renegotiating working agreements was already under way. The separation of Midland Red took place in 1973 when its Birmingham operation was purchased by West Midlands PTE. Thus in ten years there was little progress, whereas major changes were introduced relatively shortly after the start of the trial area.

27. The Committee agree that there are cost savings to be achieved by major operators but suspect that overall they are smaller than the White Paper presages. On the basis of the analysis set out in the Government's evidence, and of the fact that all the available evidence on costs points to the feasibility of major cost reductions, the Government adheres to its estimate of the gains which are possible.

(3) "They presume, in our view incorrectly, that a workable basis can be found for separating the unremunerative services from the potentially profitable ones which will produce a stable outcome."

28. The Committee's discussion of the point in Section VII(ii) of the report seems to support the Government's view, since they state "we

believe that it should be possible to implement the tendering system with little danger of any greater instability of service than the secular decline in demand would have caused in any event." (paragraph 259). Work already done by tendering authorities, and by the industry, does seem to suggest that there is a workable basis for identifying the unremunerative services which need to be put out to tender.

(4) "They presume that on the road competition will quickly and relatively without waste converge to give stable services and fares at levels which are in the best interest of the consumer."

29. This argument by the Committee presumes that under present arrangements all resources are used at maximum efficiency and without waste; which the Committee's own inclination for change seems to undermine. The issue to be addressed is whether the resources in the industry will under the Government's proposals provide better and more efficiently managed services. The Government is convinced that this will indeed be the outcome.

30. It is generally recognised that passengers place much importance on stability of service which will therefore be a major objective of any operator. The registration system and contracts for tendered services should assist in ensuring stability.

31. On fares, the Government does indeed believe that competition is likely to give fares at levels which are in the "best interest of the consumer." In very many cases they will be fares below present levels. The Government does not expect and has not said that fares will stabilise very quickly, and does not believe that stability of fares is more important to the traveller than lower fares.

CONCLUSION

32. The Government do not understand why, given the evidence which was presented to it, the Select Committee inclined towards the policy of comprehensive competitive franchising which it has proposed. It is a pity that the Committee took no evidence about the effects of such a policy, and failed to seek evidence about it, either from the Industry or from Government witnesses. If they had it would have brought to their attention the major disadvantages associated with comprehensive competitive tendering.

33. The industry has been in chronic decline. The facts given in Cmnd [illegible]0 remain as important as they were before the Select Committee reported. Thirty years ago 42% of all journeys were by bus; today the figure is just 8%. During the last ten years there has been a 28% fall in ridership. Yet there is general agreement on both sides of the debate that bus services are vitally important, particularly to old people, and to the less well-off for essential jounreys.

34. No Government could allow this decline to continue, and this Government does not believe that comprehensive competitive franchising provides the necessary solution. The Select Committee's proposals would continue to restrict the introduction of new services; they would not maintain pressure on the industry's rising costs; and they would perpetuate the practice of overcharging passengers on the more heavily-used services which has been one of the roots of the industry's decline.

35. We believe that the industry needs to be opened up to proper competition, providing the stimulus for efficiency which other industries regard as normal and the impetus for better service which customers have a right to expect. We are confident that the form of competition proposed in the Transport Bill is the best way of achieving that. It provides the best solution both for the industry and for the customer.

THE GOVERNMENT'S RESPONSE TO OTHER MATTERS RAISED BY THE COMMITTEE

Recent Trends in Public Transport*

1. The Committee accept (paragraph 7) that the White Paper correctly points to the decline in public transport and to the rise in car ownership as a major force in personal travel since the 1950's. It goes on to consider the extent to which this decline is due to regulation, or to other factors.

2. While much of the analysis of the decline in bus services is common ground, there are statements which need correction. In paragraph 27 the Report states "whatever has been said in the White Paper it does seem that there are other causes for the decline other than regulation and these encompass:

- increased car ownership;
- lack of investment;
- high fares (as costs are spread over fewer passengers);
- failure to meet market needs - due to regulation".

3. But the White Paper explicity recognises in paragraph 1.3 that the rise in car ownership in the 1950's has changed patterns of personal travel and has made it more difficult to provide good public transport. The Government does not agree that there has been lack of investment in the bus industry. Over the period 1972 to 1982 £1347m was invested in buses and coaches with the assistance of £465m in grants from the Exchequer. The argument that high fares have also caused decline because costs are spread over fewer passengers ignores the preponderent effect of cross-subsidy, provided under the regulatory system, in raising fares; had cross-subsidy over the years been at commercial levels, there is little doubt that the decline would have been significantly less.

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*The headings to the sections of this Annex reflect those in the Report of the Select Committee.

4. The Government therefore concludes that it is the twin elements of rising car ownership and regulation which are primarily responsible for the decline in bus services.

5. Paragraphs 24 and 25 report allegations that the main purpose of the Transport Bill is to hit Metropolitan Authorities and curtail their expenditure, and comments that it would seem unduly harsh to destabilise the whole bus industry for the sake of some Metropolitan Authorities.

6. As it has made clear on a number of occasions the Government's determination to reduce the levels of revenue support in metropolitan counties had been announced long before the White Paper was published. The Transport Bill is not about reducing subsidy in the Metropolitan Authorities; it is about improving road passenger transport services.

Innovation

7. The Government notes the Committee's view that although the licensing system has formed an impediment to some new initiatives much innovation has already taken place within the present legislation. It is however obvious that the impediment presented by the licensing system is bound to restrict innovation mainly to operators already in possession of particular licenses. It is also noteworthy that Strathclyde's minibus services were only introduced after lengthy battles in the "traffic courts", and that the minibus experiment in Exeter started some 2 years after similar proposals, were put forward for services in London.

8. The Committee accept (paragraph 62) that there is potential for minibuses in areas where demand is sparse; but is concerned that in cities the admitted benefits of higher speed, lower waiting time and lower operating cost per vehicle mile may be outweighed by reductions in conventional bus services and by increased congestion. The Committee concludes (paragraph 126) that "in finding a role for minibuses in urban areas there is a pressing need to take cognizance of adverse spin-off effects". It has to be recognised, however, that minibuses are more manoeuvrable than conventional

buses, and that feature, together with higher acceleration, reduces their congesting effect. Nor is their potential for attracting passengers from cars sufficiently recognised. The proposed powers of the Traffic Commissioner to deal with congestion are discussed in paragraph 21.

Competitive Practices

9. Paragraph 105 of the report states that "first the White Paper and now the Bill provide no adequate system of monitoring and control". But since the Bill provides, as paragraph 105 recognises, power for the traffic commissioner to take action against operators who adopt unacceptable practices, since the existing legislation and organisation of the Department of Transport provide the means of enforcement, the Government feels that the Committee's observation is incorrect.

10. The Committee also state (paragraph 109) that "the White Paper does not acknowledge as problems matters such as the provision of Sunday services or instability of services, and regrets this omission". The Government has always recognised that since Sunday services are generally unprofitable, it would be up to local authorities to secure their provision by purchasing these services following a tender.

11. As far as instability of services is concerned, the registration system in the Bill would require operators to give prior notice both of introduction and of withdrawal of services. The period of notice, which the Government currently believes should be 42 days, will limit the frequency of any changes. On subsidised services stability will be provided by contract with the operator. In the environment to be established by the Transport Bill some of the features of the Hereford Trial Area will be much inhibited. No operator will have a protected market elsewhere, and all operators will be under the discipline that costs incurred will have to be recovered. It will be in the operators' interests to run services which attract the public and it is the Government's expectation that the major operators, who currently run virtually all stage carriage services in the country, and new entrants will see it as being to their commercial advantage to avoid irrational tactics of the sort described.

12. To the extent that the recommendation is intended to apply to all services, the Government therefore rejects the Committee's recommendation that the matter of timetabling should be one for which the Traffic Commissioner should be specially allowed to determine traffic regulation conditions. This would merely be the reintroduction of regulation. The Government does however accept that specific traffic regulation conditions relating to timing may be needed in some congested areas where the traffic authority has demonstrated that without action of this sort severe congestion would result.

13. The Committee supports (paragraph 118) the Welsh Affairs Committee in urging that the Government should ensure that adequate resources are made available to enforce maintenance standards and road behaviour. The Government agrees that resources must be adequate for the task, and proposes to take on additional manpower where current staff levels are inadequate for the extended enforcement requirement.

Taxis

14. It is noted that the Committee approve of the discretion given to local authorities to tailor the pace and extent of the relaxation of quantity control to their local circumstances. But in recommending against the general deregulation of entry to this market (paragraph 137), the Committee has given too much weight to the interests of the suppliers at the expense of the consumers. Moreover, in suggesting that a district council might take into consideration the value of licence plates in determining any move to free entry, the Committee appear to have overlooked the fact that it is in the areas where there is an undersupply of taxis that these plates have attained high values. The licensing system was designed to protect the public, not to protect existing licence holders from competition from others qualified to enter the trade, nor to create a trade in licences. These licences were originally issued at a nominal fee and the Government can see no reason why compensation should be paid for the loss of the holders' expectations. Those who have bought them have enjoyed the higher earnings, the expectation of which gave rise to these values in the first place, and have taken a commercial risk that the local authority might issue more licences at any time, as some districts have done recently.

Shared Taxis

15. The Government welcomes the support of the Committee for the provisions which will enable shared taxis to be used where adequate conventional public transport services has not been achieved. The Government's proposals will permit such services to develop progressively in accordance with local circumstances, whether in urban or rural areas. The provisions which are now contained in the Transport Bill meet many of the concerns expressed to the Committee. In particular, taxis will only be free to go from bus stop to bus stop if operating a registered local service.

16. On the question of passenger safety, (paragraphs 142 and 143) taxis offering shared services from an authorised place will continue to be subject to regulation as taxis and, until an arrangement to share has been made, will remain compellable, that is to say the first passenger will have the right to make an exclusive hiring. Equally, when booking a shared hire car, a prospective passenger may insist on the provision of an exclusive service.

17. Finally, the Government does not accept that the taxi trade had been given insufficient opportunity to make their views known on these proposals. In addition to issuing the White Paper and a subsequent consultation paper on the taxi and hire car proposals, the Government has met many times with representatives of the taxi trade. Further meetings are planned at which they will have the opportunity of making known their views on the way in which these services should be provided and regulated.

Congestion

18. The Select Committee recommend (paragraph 153) that if "free entry is proceeded with, some direct powers are given to the local authority to enable them to avoid congestion".

18. In reaching this recommendation, the Committee questioned whether potential sources of congestion had been properly identified, whether the magnitude of likely effects had been properly assessed and whether the provisions for meeting any problems were adequate.

20. Public service vehicles operating in major urban areas at peak times could give rise to additional congestion; but they represent only one class of vehicle which may contribute to congestion, and it is not necessarily right to single them out. Under the Road Service Licensing arrangements, local authorities have been able to represent to the Traffic Commissioners that routes or stopping places should be altered to improve traffic flows and reduce or avoid congestion. But in considering congestion, the traffic authority will need to have regard to the interests of all road users, including passengers on public service vehicles in deciding on the appropriate pattern of traffic management.

21. Following deregulation, local authorities will, under the Road Traffic Regulation Act 1984, have power (except on trunk roads) to determine places where buses may stop, and they will be able under traffic regulation orders under that Act to determine which highways should be prohibited to public service vehicles.

22. Since those powers do not normally allow for speedy action, the Government has, as the Committee recognise, provided powers for the Traffic Commissioner to place a condition on the licences of operators running local services determining their routes and stopping places, including conditions as to timetabling in severely congested areas, where it appears to him necessary to do so to prevent danger to road users or severe traffic congestion. The Government disagrees with the Select Committee's conclusion that the measures contained in the Bill, together with existing powers under the Road Traffic Regulation Act 1984, are inadequate for the purpose. The combination of these powers should be quite adequate for quick and efficient action where circumstances require.

Co-ordination with Education Services

23. The report (paragraph 172) states that the White Paper ignores the major issue of school transport and instead pays lip service to the need for better use and co-ordination of community services. In fact, the White Paper (paragraph 3.12) stated that the Government wanted to see the best use being made of transport already provided for special purposes and said that it would consider how to stimulate the better use of services run on behalf of education,

health and social service authorities and others. The provisions of Clause 82 of the Transport Bill, placing a duty on transport and education authorities to co-operate with each other to obtain the best value for money when subsidising transport services is a direct result of the White Paper's proposals. The Government is grateful for the welcome the Select Committee gives to this provision.

24. The report however states there is no means for local authorities to integrate educational services with commercial routes. This is not so. Under the provisions of the Bill holders of school contracts can offer empty seats on those services to the general public on a commercial basis, operators of commercial services can tender for contracts to carry schoolchildren either on the existing routes or by varying the commercial service to meet the education authority's requirement, and operators can provide season tickets for schoolchildren.

25. The Committee may have overlooked the fact that operators will be keen to increase their income, by carrying schoolchildren at local authority expense, where it is in their commercial interest to do so. The recommendation of the Committee that local authorities should have a duty and a power to co-ordinate commercial public services with education services implies that commercial services should be forced to bear costs which properly should fall on the education authority. The Government therefore rejects the recommendation. Local authorities will however have the power under regulations which the Government intends to make when the Bill becomes law to negotiate certain minor changes to services without going out to tender; this could include educational concessions and minor alterations in services in order to serve education premises.

Concessionary Fares

26. The Committee believe (paragraph 190) that discretion should be left to the local authority to decide what forms of concessionary device it wishes to use. The Government is in complete agreement and neither the White Paper nor the consultation documents for the Bill have suggested any proposal to the contrary.

32. As discussed earlier in paragraph 22, the Government believes that local authorities will have adequate powers to deal with the possibility of serious danger to the public or severe traffic congestion through their powers under the Road Traffic Regulation Act 1984 and the provisions in the Bill for Traffic Commissioners to impose conditions on operators licences.

33. The Government does not believe that local authorities should themselves determine traffic regulation conditions, since these will affect the commercial operation of services provided by the industry. To place traffic regulation conditions in the hands of the local authorities would enable them to affect the operation of the market for local bus services without necessarily taking into account the commercial interests of bus operators to serve their customers. Equally, the Government, not local authorities, have responsibility for Trunk Roads. The Government therefore believes it is appropriate to have the Traffic Commissioners acting as arbiters in these matters, since this is a role to which they have grown accustomed over many years, and because conditions are to be attached to operator licences, which are under the Commissioners control.

34. The Committee also recommend (paragraph 210) that the grant for innovative services in rural areas should be paid via the county council, on the grounds that they would have responsibility for formulating public transport policies to subsidise non profitable routes and that a confusion of funding bodies and procedures will not aid the development of rural transport.

35. The Department of Transport has for a number of years been encouraging the development of new and unconventional transport schemes in rural areas, often in conjunction with county councils. It was very useful to have available small amounts of money to prime the pump for such schemes; however use of research funds was often not appropriate. The Development Commission has been involved in rural development for 75 years. A clear working relationship with local authorities and other agencies has been developed and this year the Commission's initiation of promoting rural development programmes for each of its priority areas is clear evidence of its ability to improve co-ordination of policy at the local level. The intention of the innovation grant is certainly not to supplant the efforts of local authorities to provide and assist with transport projects serving rural communities, but the Government believes that

the Development Commission's experience will prove invaluable now that it is to have a particular transport role.

Details of Implementation

36. The Committee have recommended a number of changes to the implementation of the proposals in the Transport Bill, and the Government's view on them is set out below.

Registration Authority

37. In paragraph 240 the Committee recommend that the appropriate local authority unit be the registration authority. As the consultation document on registration recognised, there are good arguments to justify the appointment either of the Traffic Commissioners or of the relevant local authority as the registration authority. Both bodies will need to have the information contained in the registration in order to carry out their function in relation to policing the system and to procurring subsidised services respectively. The Government decided that on balance it would be more appropriate for the Traffic Commissioner to undertake the role of registration authority for the reason set out in the paper "Changes to the Government's proposals following consultation" issued on 31 January 1985. It is also worth noting in this context that a crucial requirement for registration of the service is the possession by the applicant of a PSV operator's licence. This is a matter which only the Traffic Commissioner has the information to be able to determnine.

38. The Government therefore remains of the view that the Traffic Commissioner should be the registration authority, while recognising that the information will need to be provided at much the same time to the relevant local authority.

Registration Conditions

39. The Committee propose (paragraph 241) that registration should include information about termini, routes, stopping places, timetables of a specific nature and fare levels. With the exception of fare levels, the Government believes that this information may indeed be necessary, and will be consulting on the necessary regulations. It does not believe that fare levels should be a fixed element of the registration. In a competitive market there may be

need for changes and it seems wrong to constrain unduly the ability of operators to react flexibly in the market. Operators will, as now, be required to have fare tables in the vehicle, and local authorities are likely to have access to information about fare levels as part of their role in providing concessionary fare schemes.

40. The Committee's comments on the registration fee (paragraph 242) are related to fees if the registration authority were to be the relevant local authority. The Government sees no reason why the fee should cover the cost of publication of comprehensive timetables by the local authorities; the Government hopes that if they produce them, local authorities will (as for example has happened in Plymouth) be able to benefit from a partnership with commercial advertisers or local newspapers.

41. The Committee also suggest (paragraph 243) that existing operators should register all relevant services rather than acquiring registration by default. The Government agrees, subject only to the exception that services for which a road service licence has been granted under the revised criteria should have an automatic registration.

42. The Committee propose (paragraph 244) that 2 months notice of a new service and 3 months notice of a withdrawal should normally be given unless county councils or metropolitan authorities agree to earlier implementation or withdrawal, and that 21 days notice should be given of variations to a service.

43. The Government's current view is that the period of notice and the period of withdrawal of a service should normally be 42 days, but that the Traffic Commissioner should have discretion to allow earlier implementation or withdrawal in certain specified circumstances. These are matters for regulations, and the Government will be consulting interested bodies in due course.

44. The Committee suggest (paragraph 245) that all local transport services which carry passengers at separate fares should be registered to enable the county council to obtain a full picture of transport provision in its area. The Government agrees that all

local services as defined in the Bill (including those run by taxi operators) must be registered; it does not believe however that it would be helpful to require registration of pre-booked taxi or hire car journeys or of taxis carrying passengers at separate fares from a taxi rank or other appointed place, since by definition these journeys are random and registration would seem to be inappropriate.

45. The Committee recommend (paragraph 247) that county councils and metropolitan authorities should be allowed to negotiate with operators for cost effective improvements in services. This is a matter on which the Government will be consulting before making regulations on tendering provisions, but in principle the Government sees virtue in providing powers for local authorities to negotiate minor variations in commercial services provided that the cost involved is not significant.

46. The Committee propose (paragraph 248) that there should be powers to regulate the spread of bus arrivals to ease congestion and improve the service to the public. As discussed in paragraph 12 above, the Government accepts that timetabling of arrivals and indeed of departures may be necessary in some congested areas, and the Traffic Commissioners will have the powers to apply traffic regulation conditions for this purpose.

47. In paragraph 250 the Committee recommend that traffic management via traffic regulation conditions should remain in the control of the local highway authority; that traffic regulation conditions should be attached to a licence only with the approval of the highway authority; and that the Traffic Commissioners should be obliged to follow the advice of the highway authority with respect to such conditions; and that there would have to be machinery for appeal against unreasonable conditions.

48. The Transport Bill places responsibility for the application of traffic regulation conditions with the Traffic Commissioner, since he will be the body administering operator licensing. The Bill recognises, however the very great interest of the traffic authority and indeed that authority and that authority alone will have the power to request the Traffic Commissioner to determine conditions.

49. The Government recognises that in some circumstances it may be necessary to impose conditions immediately where it seems likely that the service as registered would cause danger to road users or severe traffic congestion. The Bill provides for imposition of conditions without delay and for the traffic commissioner to consider representations from operators at a later date.

50. The Government does not believe that the Traffic Commissioner should be obliged to follow the views of the traffic authority with respect to traffic regulation conditions, though in many cases he may do so. But there will be cases where the traffic authority is unable to satisfy the Commissioner that the criteria for imposition of a traffic regulation condition have been met, and in these cases the Traffic Commissioner would quite properly refuse to impose or impose an amended condition.

Observance of Registration

51. The Committee say (paragraph 251) that there should be a sufficient penalty to prevent malpractice and poor provision of services and sufficient flexibility to overlook occasional unexpected occurrences. The Committee while welcoming the introduction of fuel grant reduction as a sanction question whether there is a sufficient control.

52. The Government believes that it will be in the interest of holders of PSV licences who wish to run registered services to behave properly and rationally in managing their services and to run reliable services to ensure that their share of the market is maintained or increased. The sanctions against bad behaviour are, in the Government's view, significant. The loss of fuel duty rebate for running unreliably should be a major incentive to operators to behave well; the additional sanctions on operator licensing, which would allow Traffic Commissioners to refuse operators the right to run a particular or indeed all registered services, and ultimately to take away the operator's licence, are major and enforceable sanctions.

Tendering

53. The Committee suggest (paragraph 264) that tenders for geographically adjacent services should form part of each tender round and that operators should be permitted to make a single tender to cover several services if they wish; and that joint tenders submitted by two or more operators wishing to take advantage of interworking possibilities should be permissible. The Government accepts that the former proposal will be appropriate; the latter is likely to involve arrangements subject to the Restrictive Trade Practices Act but this is not likely to prohibit them insofar as they do not contain significant restrictions.

54. In general the Government accepts the Committee's conclusion that it is best to leave details of tendering to the local authorities concerned; the Bill does however contain powers to make regulations about tendering should difficulties arise.

55. The Government welcomes the Committee's agreement that the maximum period of tender should be 5 years, and that the Bill's requirement that the grounds for acceptance of particular tenders should be stated is a sensible basis on which to proceed.

56. The Government also accepts the Committee's view that no great dangers exist in allowing county councils on the one hand, and districts on the other to be involved in tendering. The Government believes that authorities will work out between themselves appropriate arrangements.

57. The Committee also argue that local authorities should have a statutory right to information and to carry out surveys on local bus services. In the Government's view the powers of authorities both under the concessionary fare regime and under the tendering proposals should be sufficient for them to acquire the information necessary for their functions without the need for a statutory requirement on all operators to provide sensitive commercially confidential information to the councils.

Restructuring the bus industry

National Bus Company

58. The Government is grateful for the Committee's endorsement of the need for NBC to split its operations into accountable units which enable the operator to be more aware of local needs and circumstances.

59. The Committee recommend (paragraph 274) that the Government should give greater priority to the need to encourage fair competition and less to the need to realise the highest possible price in deciding the size of the units in which NBC will be sold.

60. The Bill makes it clear that the prime duty of NBC in making proposals to the Secretary of State for the disposal of the operation of NBC should be to promote sustained fair competition. The Government has already asked NBC to consider how its operations might be reorganised so that they can compete fairly on deregulation. But the structure of disposal of the operating companies, once competing fairly, will be a matter which will depend crucially on the willingness of purchasers to buy one or more of the operating subsidiaries.

61. The Committee suggest (paragraph 275) that successful privatisation is likely to require the writing off or restructuring of NBC debt, thus giving any private version of NBC an advantage over the present one. The Government believes that this interpretation of the provisions of the Bill is incorrect. Any purchaser of a part of the National Bus Company will need to raise the money for that purchase, whether by borrowing or by share issue, and the investment will have to be remunerated in much the same way as NBC remunerates the existing capital debt. Sales of companies can be expected to produce proceeds which can be applied to repay the debt which NBC currently owes to the Government.

National Express

62. The Government infers from paragraph 276 that the Committee wish NBC to dispose of National Express in its present form, drawing largely on the subsidiary operating companies for its resources, and that it should retain the crucial control of the major terminal facilities. The Government awaits proposals from the National Bus Company for the privatisation of National Express, and will be concerned to ensure that competition with National Express services is not inhibited by the pattern of disposal.

Municipal Bus Companies

63. The Committee opine (paragraph 281) that the formation of companies will do little to promote fair competition and that the financial separation of undertakings from their councils could be achieved without removing the undertaking from direct local control.

64. As the White Paper made clear, the Government's intention is that all bus operators in the new deregulated market should operate on a comparable basis without the possibility of concealed subsidy from PTEs or local authorities which own bus operations. The Government believes that the Companies Act structure will provide not only a barrier to concealed subsidy but also a better framework within which managers of the existing undertakings can improve efficiency.

65. The Committee also argue (paragraph 280) that the provisions in the Bill restricting the financial freedom of the new municipal companies are a restrictive practice and against fair competition. The Government accepts that the financial and other controls will to some extent restrict the operations of district council and PTE undertakings, but would point out that while they are wholly owned by a local authority the Companies will have the advantage of the implicit guarantee that in the case of insolvency creditors claims will be met by the parent local authority, and of access to finance at the preferential rates charged to local authorities. These advantages seem a reasonable exchange for the controls which will remain.

Passenger Transport Executives

66. The Committee accept (paragraph 285) that there is a need for the breakdown of the size of some public transport undertakings in the present PTEs, but argue that there is a case for an effective public transport authority or some such co-ordinating body to continue, and that the special circumstances of Tyne and Wear require special treatment.

67. The Government's views on the need for the co-ordination of an integrated network are set out in the main part of this White Paper. The Committee argue however, in Annex B, that there are special benefits deriving from the integrated transport system based on the Metro in Tyne and Wear which will be lost as a consequence of the deregulation of bus services. It is their view that the transport planning authority should continue to be in a position to regulate the provision of bus services so as to ensure that they are fully co-ordinated with the Metro and that this would justify an exemption for Tyne and Wear from the general provisions of the Bill.

68. The Government does not accept that any such exemption is necessary. They believe that passengers in Tyne and Wear should have the same freedom of choice between modes as in other areas. They accept, however, that there is good sense in having fare and ticketing arrangements that make the best possible use of opportunities for travel using both bus and Metro. The best way of achieving this is through agreements freely entered into on a commercial basis between the PTE and bus operators, some of whose services will of course be under contract to the PTE. Ministers have made it clear in evidence to the Committee that they have asked officials to discuss the question of the kind of support that the Metro will need after deregulation, and the nature of the arrangements that could be made with bus operators, with the County Council and the PTE.

69. The Committee have drawn attention to the differences in financing arrangements as between the Metro and BR services supported by the Metropolitan Counties under Section 20 procedures. Expenditure needs arising from these arrangements are assessed in a

separate GRE formula, and my officials will be discussing with the local authority associations in the course of their consultations on next year's RSG settlement whether the GRE formula should be changed. There is no suggestion, however, as the Committee appear to imply, that responsibility for financing the Metro might be taken over by central Government.

Bus Stations

70. The Committee recommend (paragraph 288) that further attention be given to the mechanisms for ensuring that control over bus terminals is not used as a means of securing unfair advantage in the provision of local bus services.

71. The Government accepts that bus stations may have two separate functions; they may act as interchanges between bus services, or as focal points for passengers providing a single place from which they can start many of their journeys; and they may also have the function of assisting the traffic authority in its management of traffic in towns by removing buses from bus stops on crowded streets.

72. The Government believes that the powers of the Bill to provide traffic regulation conditions may be used by the traffic authority to ensure that buses use the bus station where this is necessary to avoid congestion; it accepts, equally, that it is right that where a bus station is owned or controlled by a dominant operator that operator should not be able to refuse entry to the bus station to competitors.

Institutional arrangements

73. Commenting on the provisions in the Bill which enable the Railways Board to secure the provision of bus substitution services, the Committee refer (paragraph 293) to the view expressed by the Bus and Coach Council that to make bus substitution services eligible for central Government grant and to safeguard their future by means of a statutory procedure while offering no such safeguards for any other bus services is to apply different standards with no rational foundation. The Committee conclude that there does seem to be a dual standard operating and, by implication, a distortion of resource allocation.

74. This conclusion overlooks the rationale behind the inclusion in the Bill of the provisions relating to bus substitution services. The Government shares the view expressed by the Transport Select Committee in their second report for session 1982-83 that guaranteed and where necessary subsidised replacement bus services may, in some cases, offer passengers a reasonable alternative to existing rail services at less cost. It is important - and entirely reasonable - to distinguish between bus substitution services, intended to be operated as an integral part of British Rail's rail passenger network, following withdrawal of a rail service and after completion of the full closure procedures for the service concerned, and other local bus services provided as part of the bus network.

75. The Committee comment (paragraphs 294 and 295) on the concern that public service vehicles run under permit, rather than under the normal operator licensing provisions, may have an unfair advantage in the new market. The Government does not accept this. Operator licensing is not appropriate for totally non-commercial activities. The voluntary sector plays an invaluable role in supplementing conventional transport especially for disabled people and in deep rural areas. The permit system enables the voluntary sector to play that role; it does not enable them to usurp the place of commercial operators, nor is there any evidence that they wish to do so.

76. The Committee comment (paragraph 296) on the problems of comparability attendant on the development of an extended role for taxis and hire cars within the spectrum of public transport services. Taxis running registered services will be subject to drivers' hours regulations, but fares on registered services will not be subject to control by the taxi licensing authority. Fuel duty rebate will also be available to taxis running registered services, though the taxis will continue to pay VAT. While recognising that the arrangements for buses and taxis are not wholly comparable, the Government does not believe that taxis will have an unfair advantage over other public service vehicles.

Structural controls

77. The Committee suggest that the structure of the industry after deregulation, even taking account of the proposed break-up and sale of NBC and the changes in the local authority owned sector, can not be relied on as the basis on which fair competition can be assured. The Government however remains of the view, as set out in Chapter 5 of the White Paper, that the bus industry does not show substantial economies of scale; it also seems clear that there are no very significant barriers to entry. Accordingly there are no strong intrinsic reasons in the long term why the industry should tend towards concentration, since small firms will be able to compete effectively with large ones. The Government does recognise, however, that in the transition to deregulation size may offer particular competitive advantages, and has therefore proposed structural changes.

78. In considering whether there will be fair competition it should also be remembered that even the present structure of the bus industry entails more than one sizeable operator (for example a National Bus Company subsidiary and a Passenger Transport Executive or municipal undertaking) in very many urban areas, and these operators therefore represent strong potential competition for each other once regulation is removed. In addition of course there is the potential competition presented by the 5,500 independent operators. Indeed, in a market where there are low barriers to entry, existing operators will need always to take account of potential as well as actual competition. The mere knowledge that the market is contestable will tend to impose competitive pressures on existing operators behaviour.

79. The Committee comment (paragraph 297) on suggestions of predatory behaviour by NBC to fight off competition in Hereford (although there is also mention of lack of firm evidence). However the Government takes the view that it is not reasonable to assume that any behaviour of this kind observed in Hereford would or could be repeated on a wider scale. Deregulation of only a small part of the market means that major operators are able to shift resources (for example vehicles or money) from other parts of their undertaking to counter a limited degree of competition. This would not be possible if actual or potential competition were faced everywhere. This is why the Government has concluded that it is right for deregulation to be comprehensive.

80. The Report nonetheless expresses concern at the possibility of predatory practices, and suggests various possible remedies. One of course is comprehensive competitive tendering, but this White Paper has already indicated the major shortcomings which the Government sees in such a system. The Government has already carefully considered the other protections against predatory behaviour which the Committee suggest, including a requirement that fares should be maintained at any one level for a reasonably lengthy period of time, and the proposal (paragraph 302), that additional powers should be given to the Traffic Commissioner. However the Government has concluded that such measures could be unduly bureaucratic and restrictive, and that any benefits they might bring would be outweighed by the risk of denying bus passengers the advantages of a vigorous and effective competitive market system. Indeed, the Government believes that bus passengers have been without these benefits for too long.

81. Accordingly the Government takes the view that there is not a sufficiently strong case for the bus industry to be placed on a different footing in respect of competition legislation from other industries; in particular the Government concludes that to give the Traffic Commissioners powers in the field of competition would be to place undue responsibilities upon them which they are not well equipped to fulfill. The Bill contains provisions to remove such exemptions from the existing range of competition and monopoly legislation as the bus industry presently enjoys, although the industry is already subject to the legislation on anti-competitive behaviour; indeed only recently an operator of a commuter coach service, with a stage carriage license, ended his practice of offering free travel after a brief preliminary investigation by the Director General of Fair Trading.

82. In paragraph 304 the Report raises the question of the bus stations; this issue is considered elsewhere in this Response. Paragraph 304 also raises the question of agreements between operators, commenting that "the border line between desirable and undesirable restraint of collusion is far from self evident". The Government agrees, but considers that agreements between operators are best dealt with under the existing restrictive trade practices legislation, in the same way as for most other industries.

Accordingly the Bill contains provisions to end the bus industry's present partial exemption from the Restrictive Trade Practices Act 1976; this means that should agreements go before the Restrictive Practices Court, which will only be the case if they contain significant restrictions, it will be open to the parties concerned to seek to satisfy the Court that the agreement is not contrary to the public interest.

83. The Committee quote (paragraph 305) dissatisfaction with the amount of consultation before the publication of the White Paper. In fact when the Secretary of State announced in his speech to the Bus and Coach Council on 15 February 1984 that he had asked the Department to carry out a study of the organisation and regulation of the bus industry, he also invited views from the industry. At a speech to the Association of County Councils on 29 February, the Secretary of State again said he would welcome views. At about the same time the Department wrote in similar terms to the Association of District Councils and the Association of Metropolitan Authorities inviting views. Ministers and officials had a number of meetings with these organisations and others over the following months. A Departmental Working Group was set up with the National Federation of Taxi Associations and Scottish Taxi Federation in June to discuss the feasibility of the proposals for taxi-sharing. These meetings were in addition to correspondence and less formal contacts during that period.

84. In paragraph 306 the Committee quote dissatisfaction with the time allowed for consideration of, and response to, the consultation papers which the Department issued following the publication of the White Paper. The Government deliberately set a demanding timetable for consultation and implementation because of the vital need to minimise the period of uncertainty facing the industry. In the event the timescale proved realistic. The consultation exercise was invaluable in translating the White Paper's proposals into detailed legislative form and the Transport Bill was published in time for 1984/85 session.

85. In paragraph 307, the Committee argue that the Bill is seeking to do too much at once. The Government's view is that deregulation unaccompanied by the other changes would not be enough to promote

fair competition and would not have a significant impact on the level of costs or the standards of services. The continuation of the present organisation of the bus industry, mainly in large undertakings in the public sector and largely owned by subsidising authorities, would allow those operators to use their market dominance to destroy competition which emerged in a deregulated environment. The continuation of block subsidy would not result in the necessary downward pressure on costs, and it would be inconsistent with the introduction of competition; block subsidy relies on the protection of operators on their profitable services so that they can cross-subsidise their unprofitable ones. The Government believes reform must be introduced on all these fronts if the policy is to achieve its objectives. It accepts that major adjustments by the industry and the local authorities will be necessary over a fairly short timescale but it believes the essential changes can be made by the Autumn of 1986.

Privatisation: Econ. Pol.

PT

RESTRICTED

NBPM

AT
18/6

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

17 June 1985

Dear Peter,

Thank you for your letter of 3 June about the further action I am taking to encourage disposals of unused and under-used land in public ownership.

You refer to sites owned by nationalised industries and by Government Departments. As we both recognise, I have no powers to direct disposals of Crown land and would need to consult the appropriate Minister in the case of land owned by nationalised industries. Nevertheless, I believe it is important that this new initiative should demonstrate our determination to bring all publicly-owned land into use. I would not wish to give the impression that our efforts are to be confined to local authority-owned land, which represents just over half of the total area shown on the land registers.

As to the possibility of future legislation, at this stage I consider that embodying this extension of the land registers in an amendment to the 1980 Act would have a significant effect in drawing the opportunities to the attention of those likely to make use of them. However, before reaching any conclusion on this, we will need to see what the response is to the publicity being given to this initiative at present.

The manpower and financial implications of the increased activity are difficult to predict. We have no way of assessing public response to the initiative and in those circumstnaces I have not found it necessary to argue a case for increased resources. I believe that, initially at least, we will be able to contain the extra work within the present provision. However, I may find that a reassessment of this view is necessary in the light of experience.

I am copying this letter to the Prime Minister, members of Cabinet and Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

The Rt Hon Peter Rees QC MP

fle (71) ECL

10 DOWNING STREET

From the Private Secretary 17 June 1985

BRIEFING ON PRIVATISATION

Your prompt response for a request for the briefing pack on privatisation has earned me a personal letter of thanks from the Italian Minister for Industry, thanks which I pass in turn on to you.

Roughly translated, the letter says

"I have received the documents about the criteria for privatising shares of public sector companies in the UK. I am very grateful to you personally for your help which has been both timely and effective. I am most grateful also for the invitation to send to London an official of the Ministry of Industry to look more fully at the issues. I will be in contact again when the documents have been studied further."

You will see from this that the Italians propose to take up the suggestion of sending over a reconnaissance team. I do not know whether we will hear more about this from Italy or via the Embassy.

(Andrew Turnbull)

G.E. Grimstone, Esq.,
H.M. Treasury.

SECRET

2

10 DOWNING STREET

From the Private Secretary

13 June 1985

Dear Rachel,

The Chancellor raised with the Prime Minister Mr A's proposal to bid for Company X. The meeting did not reach a conclusion but appeared to be moving towards the following.

The Chancellor should say that the Government regards the bid as giving rise to considerable difficulties but that Mr A is free, of course, to bid but cannot be given any undertaking in advance of what the Government's position would be.

If asked to amplify the reasons for this line, the Chancellor could say that the bid would be unwelcome because it might damage the climate for privatisation. This has been growing in success because it is increasingly identified with selling assets to the general public and to employees. The possible accusation of selling public assets to the Government's supporters, though untrue, would be a setback. The Government also needs to protect itself against the charge that it had arranged a deal in advance. This means avoiding an undertaking to accept the bid, or even to accept it if a majority of outside shareholders favour it.

The Prime Minister is content with this approach.

Yours sincerely

Andrew.

pa

PRIME MINISTER

You agreed to think further about the attitude of the Government to Mr. A's proposal to bid for company X. The conclusion to which the meeting seemed to be coming was that the Chancellor should say that the Government regards the bid as ~~politically~~ y ~~unwelcome~~ giving rise to considerable difficulty for the reasons below but that Mr. A is free to bid but cannot be given any undertaking in advance of what the Government's position would be.

The thinking behind this is that a bid is unwelcome because it might damage the climate for the privatisation programme. The latter has been growing in success because it is increasingly identified with selling assets to the general public and to the employees. The ~~atmosphere~~ position of selling public assets to the Government's friends although would be a setback. The Government also needs to protect itself against the charge that it stitched up a deal ~~with its pals~~ in advance. This means avoiding an undertaking to accept the bid or even to accept it if a majority of outside shareholders favour it.

Content with the line suggested above?

AT

Yes - in modified language.

MT

12 June 1985

Il Ministro
per l'Industria il Commercio
e l'Artigianato

Roma, 11 giugno 1985

Egregio Signor Turnbull,

ho appena ricevuto i documenti riguardanti i criteri di privatizzazione delle aziende pubbliche adottati dal Regno Unito in questi anni.

Desidero vivamente ringraziarLa per la Sua personale collaborazione che è stata precisa ed efficiente. La ringrazio infine anche per l'invito rivoltomi ad inviare a Londra un collaboratore del Ministero per approfondire l'argomento; penso di poterLe dare una risposta non appena la documentazione sarà stata esaminata.

Colgo l'occasione per inviarLe i miei più cordiali saluti.

Renato Altissimo

Mr.
Andrew Turnbull
10, Downing Street
LONDON W1

CONFIDENTIAL

NBPM AT 4/6 CC AD

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 June 1985

Dear Secretary of State

TRANSPORT SELECT COMMITTEE: REPORT ON THE "BUSES" WHITE PAPER GOVERNMENT RESPONSE

Thank you for a sight of the draft. I have only one comment to make.

Paragraphs 34 of the annex, which deals with the Development Commission's handling of the £1m innovation grant, needs, I think, a little strengthening to reflect the excellent work it has been doing to coordinate rural development policies. I suggest that from the sixth line beginning "The Development Commission has for 15 years ....." it is amended to read:

> "The Development Commission has been involved in rural development for 75 years. A clear working relationship with local authorities and other agencies has been developed and this year the Commission's initiative of promoting rural development programmes for each of its priority areas is clear evidence of its ability to improve co-ordination of policy at the local level. The intention of the innovative grant is certainly not to supplant the efforts of local authorities to provide and assist with transport projects serving rural communities, but the Government believes that the Development Commission's experience will prove invaluable now that it is to have a particular transport role".

Copies of this letter go to recipients of yours.

Yours sincerely

Alex Dunn

for PATRICK JENKIN
Approved by the Secretary of State and signed in his absence

The Rt Hon Nicholas Ridley MP

001/1282

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CC NO

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

10 June 1985

Dear Secretary of State,

TRANSPORT SELECT COMMITTEE:REPORT ON BUSES WHITE PAPER GOVERNMENT RESPONSE

I have no objection in principle to the draft White Paper included in your letter of 28 May to the Chancellor. However, I wonder whether a few of the statements are a little too enthusiastic and therefore generate the wrong response.

Would it not help our case if the arguments for retaining regulation in London given in paragraph 14 of Cmnd 9300 were repeated in paragraph 17 of this new White Paper?

Paragraphs 21 and 22 seem a little contradictory: paragraph 21 plays down the significance of cross-subsidy, yet paragraph 22 talks of extensive cross-subsidy. Perhaps you could look at these paragraphs again. Nor am I convinced that buses are likely to become the main mode of transport for many people. Would it not be simplest to simply omit that phrase?

In paragraph 23 rural bus grant is described as transitional. Might it not be worth emphasising the point by explaining how the grant will be phased out, or by saying it will be on a temporary basis?

A cross reference to paragraph 11 of the Annex would strengthen the arguments against the Committee's points in paragraphs 30-31.

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ECON POL: Privatisation: Pt 12

Again, the response to the Committee in paragraph 60 of the annex seems rather too tentative. Could you not say that the Government considers this interpretation of the Bill to be incorrect?

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

Yours sincerely,

Paul Gray

pp PETER REES

(approved by the Chief Secretary and signed in his absence)

NBPM AT 11/6 CC 1/6

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

10 June 1986

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Dear Nicholas,

TRANSPORT SELECT COMMITTEE : REPORT ON THE "BUSES" WHITE PAPER

GOVERNMENT RESPONSE

Thank you for copying to me your your letter of 28 May to Nigel Lawson on the Government's proposed response to the Transport Select Committee Report on the "Buses" White Paper.

2 I am generally content with your draft response although I have a number of detailed comments on Restrictive Trade Practices aspects, which I have attached as an Annex to this letter. I hope that you will be able to take account of these points.

3 I am copying this letter to the Prime Minister, other Members of E(A) and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

JH5BCA

999-1

ANNEX

Paragraph 52 The Government's position on joint tendering needs to be cautious since such arrangements are likely to be registrable under the Restrictive Trade Practices Act. If the Director General of Fair Trading finds them to contain significant restrictions, there will be a presumption that they are against the public interest and they will have to be defended in the Restrictive Practices Court. The last sentence might read:-

> "The Government accepts that the former proposal will be appropriate; the latter is likely to involve arrangements subject to the Restrictive Trade Practices Act but this is not likely to prohibit them in so far as they do not contain significant restrictions.

Paragraph 69 It is our understanding that the Bill will ensure that competition legislation is applied to all owners of Bus Stations not just local authorities or PTE's.

Paragraph 80 To help to allay fears that the Restrictive Trade Practices Act will be unduly cumbersome it might be appropriate that only agreements containing significant restrictions will be referred to the Restrictive Practices Court. This point was made strongly when David Mitchell presented the relevant clause to the House. The last sentence might read:-

> "Accordingly the Government proposes to end the bus industry's present partial exemption from the Restrictive Trade Practices Act 1976; this means that should agreements go before the Restrictive Practices Court, which will only be the case if they contain significant restrictions, it will be open to the parties concerned to seek to satisfy the Court that the agreement is not contrary to the public interest".

ECON POL: Privatisation: Pt 12.

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PRIME MINISTER (2)

No need to look at the draft White Paper itself which is summarised in this note
AT 7/6

7 June 1985

BUS DEREGULATION

Early last March, a deeply-divided Transport Select Committee published the report of its findings on the Government's proposals for bus deregulation as set out in the White Paper, "Buses". The Committee agreed on the need for change, but called for a much more restricted form of competition which would retain the cross-subsidy of uneconomic routes, and favour the established big battalions of bus companies. Local authorities would be required to invite competitive tenders for the comprehensive provision of all services in a given area. To a large extent, this would preserve the status quo and deny us the benefits of the free market approach embodied in the Transport Bill.

Three would-be supporters on the Select Committee voted against the Government's radical approach. As a former local authority Transport Committee Chairman, David Gilroy Bevan favoured the status quo. Neville Trotter, representing Tyne and Wear with its integrated bus and metro system, was no doubt influenced by constituency considerations. Peter Fry is understood to have a business connection with the National Bus Company.

The White Paper, which Nicholas Ridley plans to publish before the Lords Committee stage of the Transport Bill, is a sound, robust rebuttal of the Select Committee's report. The Annex provides a comprehensive point-by-point response to the

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more detailed comments in the report. The body of the White Paper concentrates on the basic philosophical difference between the Select Committee's dirigiste solution to halting the costly, wasteful decline of bus transport and the market-orientated basis of the Transport Bill.

The objections mounted against the Government's free market approach all presume that local government officials know what their communities need, and are capable of fulfilling those needs efficiently and at least cost to the taxpayer through integrated planning and co-ordination. It is alleged that unco-ordinated, market-driven services would be erratic and unstable. Information on bus timetables would be unreliable. Multi-stage journeys would be difficult to plan and unpredictable to execute. The elimination of internal cross-subsidisation will be much more difficult to offset through the efficiencies induced by deregulation than the Government anticipates.

These are lame and probably largely groundless fears. The inescapable fact is that integrated planning, co-ordination and cross-subsidisation have failed to deliver what customers want. Protected from competition, the bus industry has ossified and declined. Restrictive practices have become entrenched and costs have risen. While consumers have become more prosperous and car ownership has steadily risen, the bus industry has failed to respond to the forces of change.

Since 1955, the number of bus passengers has halved and subsidies have increased from £70 million in 1972 to nearly £1,000 million pa today. The bus industry is caught in a vicious downward spiral; the longer people have to wait for a bus and the more they have to pay, the fewer the people who are prepared to wait; the steeper the losses, the higher the fares and the subsidies.

As we have seen, this process is not irreversible. Since long-distance coaches were deregulated in 1980, average fares have come down by 40% in real terms, and 700 new services have been introduced. The quality of service has increased. The introduction of a cheaper, high-frequency minibus service in Exeter has boosted demand by more than 50% in a year. The scope for cost savings is considerable. Private operators, freed from the heavy overhead of restrictive practices, can run bus services for 30-40% less than public sector operators.

In rural areas, far from the prospect of deprivation, there is the greatest scope for commercial enterprise to seek out better and more cost-effective ways of serving consumers. Moreover, that scope covers the wider needs of rural communities - postal services, school transport, and health and social security.

The preservation of high safety standards is a prequisite of the deregulated régime. So too is provision for the needs of the elderly and the disabled; present arrangements for

concessionary fare schemes will be improved. The unions' fears about unemployment are understandable, but if the demand for bus transport can be turned into a virtuous upwards circle, based on high efficiency and responsiveness to consumer needs, there will be more jobs for drivers and conductors - albeit not necessarily with the big established bus operators like the NBC.

This is the platform on which Nicholas Ridley defends his radical free market approach to bus transport. If anything, his case has become more compelling on exposure to Parliament. The Transport Bill will emerge intact. The Government's efforts now need to be shifted from defending the soundness of the principles to ensuring the practical success of an implementation process uncomfortably close to the time of the next Election.

It is vital to get across the message that:

1. the collapse of rural bus services has occurred against the background of an explosion of subsidy and regulation;

2. only deregulation and reduced subsidy has ever halted this decline by directing energies to marketing, cost

cutting and new services, away from the sterile process of political lobbying.

This draft White Paper helps get this across. It needs another punchy press release to hammer it home.

JOHN WYBREW

003/106

RESTRICTED

NBPM
AT 4/6
CC 100

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

3rd June 1985

Dear Patrick

DISPOSAL OF SURPLUS LAND IN PUBLIC OWNERSHIP

I have seen your minute to the Prime Minister of 20 May. I agree generally that it is worth doing more to induce sales of the 113,000 acres of unused and underused land on the land registers. The further directions you propose to issue shortly are welcome.

Some of the sites which may be identified following your initiative by the private sector will be owned by nationalised industries. You will need to reach agreement with the sponsor Minister in these cases where you wish to make a direction. Other sites identified may be owned by Government departments where you cannot make directions, but I welcome your intention in these cases to consult with the responsible Minister on any such sites.

In principle I have no objections to your suggestion that the 1980 Act be amended to enable individuals to initiate statutory action which I understand would give the private sector the right to ask you to register local authority and nationalised industry sites. But we will need to consider this aspect of the proposal in more detail in the context of the tight legislative programme before taking final decisions.

You do not mention any manpower or financial implications for your department arising from the increased activity you envisage. I assume you will contain any extra pressures.

I am copying this minute to the Prime Minister and members of the Cabinet.

Yours ever Peter

PETER REES

RESTRICTED

Ecm 81 Pt 12

Privatisa[redacted]

1 CDP
2 NBPM
AT 3/6

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/3/3

30th May 1985

Dear Norman

Many thanks for your letter of 21st March about the privatisation of Vickers (VSEL, Barrow). I am sorry for the delay in replying.

I can see that a presentational problem may arise if, as Lazards suggest, VSEL were to fetch only £55M net, conspicuously less than the public money invested. You explain that we could put up a reasonably good public defence; and it may be that the selling price could be talked up somewhat. Nevertheless I have looked carefully at your alternative under which my Department would take ownership of the SFP and lease it to the privatised VSEL.

Unfortunately the leasing option is financially unattractive. For the first 2 to 3 years, extra and uncovenanted public expenditure would be required, because I certainly could not finance the completion of the SFP within my Department's PES totals. In the later years, submarine prices would be reduced since the SFP would not feature in VSEL's asset base; on the other hand, any leasing charge for the SFP would put prices back up, such charges being an allowable cost under the profit formula. As regards the non-financial arguments, I do not think we can sustain the line that the SFP has to be Government-owned because it is a national asset for building RN nuclear submarines.

The Rt Hon Norman Tebbit MP

Under the leasing option the Government would own some of the facilities scattered throughout the Barrow yard and VSEL would own the rest; neither could build submarines without the other. In any event, critics would be quick to point out that until 1977 VSEL was wholly owned in the private sector, carrying out essentially the same business.

I have considered carefully, therefore, whether it might be possible to achieve the objective of your leasing suggestion in a slightly different way. Instead of taking ownership of the SFP, the Government could simply retain a shareholding in the business commensurate with the public investment in the SFP, to the extent that privatisation proceeds fell short of this together with the value of the other assets at Barrow. The buyer of the yard would acquire the assets of the company, less the Government shareholding; complete the SFP; and assume responsibility for the repayment or refinancing of the loans. In return the investor would acquire a shareholding of equivalent value. On this basis, the Government shareholding should be a minority one. A detailed proposal for the capital structure of the business would of course have to be worked up by British Shipbuilders' merchant bank advisers, Lazards.

The advantages of this alternative over the one suggested in your letter seem to me to be:-

a. the effect on public expenditure totals should be neutral rather than adverse;

b. the administrative not to say policy encumbrance involved in bringing industrial assets more firmly under Government ownership will be avoided;

c. there would be the possibility of obtaining remuneration of the Government shareholding, either from the outset, on the basis that the actual profits would be likely to exceed those assumed in the valuation; or after the first 5 years, the limit of the period judged by Lazards as likely to be taken into account by a prospective purchaser.

d. (subject to c) there would be the possibility subsequently of selling the Government shareholding in part or wholly for a reasonable price once, for example, the commercial uncertainties of the Trident programme had been resolved by the placing of orders. (Whereas Lazards' assessment is that the sale of £100M worth of assets would add only £20M to privatisation proceeds).

Both your alternative and, to a less extent I would have thought, the one addressed in this letter, risk being criticised as falling short of our original intentions. But so does any change of policy.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and other members of E(A) and Sir Robert Armstrong.

Yours ever

Michael

Michael Heseltine

Privatisation Pt 12

(17)

010

CONFIDENTIAL

NOPM AT 30/5 → NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

28th May 1985

Dear Chancellor,

TRANSPORT SELECT COMMITTEE: REPORT ON THE "BUSES" WHITE PAPER GOVERNMENT RESPONSE

As you will recall, the Transport Select Committee's Report on the policy contained in the White Paper "Buses" (Cmnd 9300) proposed that the Government should abandon its proposals for deregulation and adopt instead a policy of comprehensive competitive tendering for bus services. This proposal for multiple franchises would actually make the bus transport market more restrictive than it is now, and I reject it absolutely.

That is the main theme of the attached draft response, which, subject to minor drafting amendments, I propose to publish as a White Paper. I propose to use this format so that I can control the date of publication, which I intend should be before the Committee Stage in the House of Lords.

I would be grateful if my colleagues would let me have their agreement to the draft, or comments on it, by 10 June.

Copies of this letter go to the Prime Minister, other members of E(A), and to Sir Robert Armstrong.

Yours sincerely

Private Secretary

NICHOLAS RIDLEY

(approved by the Secretary of State but signed in his absence)

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TRODUCTION

1. The Transport Select Committee's Report on the White Paper "Buses" (Cmnd 9300)* was published in February 1985. The Committee's enquiry reviewed the proposals in the White Paper against the historical background, heard evidence from local authority associations, the trade unions, representatives of the industry, from other interested parties and from Ministers and officials of the Department of Transport. The Committee recognised the problems created by the decline in public transport generally and buses in particular and welcomed some of the likely effects of the Government's proposals, while expressing concern about others. The Committee propose an alternative to the Government's policy of deregulation. The Government is grateful to the Committee for its comprehensive Report.

2. This White Paper sets out the Government's view on the Committee's proposal for an alternative policy and on the major issues discussed in the Committee's Report, and Annex A deals with the many other matters raised by the Committee.

3. A great deal in the report is common ground. The Select Committee and the Government agree on:-

- the need for change to halt the continuing decline in bus services,

- the need for and the possibility of significant improvements in efficiency and productivity and reductions in operating costs and fares;

---

*Financing of Public Transport Services: The Buses White Paper. Second Report from the Transport Committee, House of Commons, Session 1984-85. Report and Minutes of Proceedings (HC-38-I) HMSO 1985.

- the need for competition to bring about those improvements; and

- the need for a transparent subsidy system under which the amount of subsidy for each service is clear.

4. The Government intend to deregulate bus services so that operators compete for the custom of travellers, and on unprofitable services the operators compete for subsidy without protection. The Committee propose a very different form of competition.

The Committee's proposal

5. The Committee propose (paragraph 237) a system under which all bus services would be put out to tender by the local authority, so that the successful tenderer would have a guaranteed monopoly for the period of the contract. In this way they envisage that competition for the contract would secure efficiency gains, while profits from letting the contracts on the profitable services could continue to be applied to subsidy to the unprofitable services, and (since the services would necessarily be specified by the local authority, and the fares and fares structure could be so specified) comprehensive timetabling and fare systems would be automatically achieved. The local authority would be required to give proper scope for the development of innovatory services and indeed the Committee regard it as "consistent with the encouragement of new entry on a small scale." (paragraph 235).

6. The system proposed by the Committee has a number of serious disadvantages.

- It would be more restrictive than the system which exists now, since it would eliminate all opportunity for an operator to seek to introduce new competing services during the currency of the contract for the monopoly.

- As the Committee recognise, a major difficulty of their proposal is that it does not retain incentives to operators to innovate. Their solution (that lively and ambitious local authorities might introduce competition between large and small buses for franchises

or even on the road in a duopoly) does not provide a sufficient alternative. It is often outsiders to industries who provide the new thinking for innovation; they are unlikely to see a regime which subordinates their judgement to that of a local authority as one which offers good opportunities for them. Moreover it is exposure to competition that best determines the success or failure of new services.

- A system of exclusive franchises would perpetuate cross subsidy of a non-commercial nature, particularly if the local authority decides to set standard fares at a high level in order to obtain resources for subsidy to less viable routes. This would continue the process of driving away passengers from the busy routes, and accelerate the decline of the industry. As the Government has repeatedly said, this is socially unjust since the users of the busiest bus routes are likely to be the poorer members of the community.

- The Committee's proposal would also put a heavy load on the local authority to specify services and fares, remote from the market test, and the risks of "capture" of the authority by the major operator would remain. The Committee have not been able, in the time available, to consider the practical implications of their proposals. In urban areas, it seems likely that most, if not all, franchises would have to be let simultaneously, because operators in bidding would have to know how much interaction there would be with other services, for example on radial routes, in the town centre or from circular routes, so that they could calculate their franchise bids. It also seems likely that cross boundary services, which frequently serve urban areas, would have to be franchised at the same time. Letting virtually all the contracts at the same time would be a major administrative burden. Moreover, the complexity of marrying together exlusive franchises offered both by Counties and Districts suggests that it would be impossible for Districts to use their powers to support bus operations except through the agency of the County.

7. There would, as the Committee suggest, be some efficiency gains from the Committee's proposals, but because of the maintenance of

cross-subsidy these would accrue to the local authorities' budgets, and not to the fare paying traveller.

8. There is a fundamental difference between those who believe that the interests of the community will best be served by planning the provision of services and the charges to be made for them in conditions of monopoly, and those who believe that the community will gain most from competition in the market between operators striving to meet the needs of the customer, subject to proper safeguards for safety and to arrangements to meet social needs. The Government's policy is of the latter kind, and the Committee's is of the former.

The Committee's Objections to the Government's Proposals

9. The Committee say (paragraph 227) that the Government's proposals are attended by four major difficulties and argue that the efficiency gains will be smaller than the Government predicts. The Government's views on these points are below.

10. The four major difficulties mentioned by the Committee are as follows:-

> (1) "They (the Government's proposals) presume, in our view without foundation, that the only benefits of integration or co-ordination which are worth having are those which will emerge quite naturally from the self-interest of competing operators."

11. The Committee argue that there are substantial benefits to be gained from co-ordination and integration, predominantly though not exclusively in larger urban areas. They cite first (paragraph 158) systems of through-ticketing and multi-journey ticketing, such as travelcards. Such schemes can, as the Committee say, increase patronage. But the Government believe that travelcards and other systems of through-ticketing will continue to be very attractive to customers and that will be a strong argument for bus operators to offer them where the market justifies.

12. The second argument the Committee cite (paragraph 159) is that standard fare scales and extensive cross-subsidy are "a legitimate

political objective given the fact that it is the democratically elected local political authority which determines the fare structure and could be held accountable for it." It is indeed a cardinal feature of the Committee's proposed scheme that the fare structure could be determined by the local authority.

13. The Government does not however accept that customers' needs for public transport are best satisfied under a regime in which fare scales are treated primarily as a "legitimate political objective", particularly when that objective is advanced by levying a 'tax' on individuals for no better reason than that they use particular bus services.

14. Indeed, as a general proposition, price controls cannot be seen as being of benefit to the community. The abolition of Resale Price Maintenance has brought significant benefits to the consumer, while the imposition of national price controls to meet temporary economic emergencies has generally distorted and damaged our industries. The Government believes strongly that the bus industry and the bus passenger have much to gain from a system under which fares are set by the market.

15. The Committee also refer to the benefits of co-ordination and intergration in supporting large scale transport investments such as Tyne and Wear Metro. To some extent this has been achieved at the cost of restricting the ability of some travellers to use buses. The Government argues that it is better for travellers to have a free choice from what the market will provide, while accepting that there can be a legitimate case for subsidising efficient rail systems where to do so will gain external benefits within the framework of a competitive bus market.

16. The Committee also refer to the advantage (paragraph 162) of good information services. The present bus industry does not provide actual or potential passengers with sufficient easily understood information about how they can travel from point to point by bus, as a recent report by the National Consumer Council points out. The Government hopes that bus operators collectively, in conjunction with local

thorities using the powers proposed in the Transport Bill, will set up a system for the provision of information on travel by bus which will help stimulate bus travel.

17. Finally, on this point, the Committee state that the Secretary of State has implicitly concurred with their view about the importance of coordination, particularly in the conurbations, by excluding London from the deregulation proposals for the time being. They attribute to the Government reasons other than those which Ministers have given for the policy towards London, and they do not discuss the reasons which the Government has given. The Select Committee are of course free to express their own opinions about the reasons which Ministers give for their policies, but it is at least unusual for them to claim that Ministers are concurring with views from which they have explicitly dissented.

18. The Government remains of the view, which they stated in their White Paper, that while systems of large scale planned public service networks can produce high quality services and connections, the benefits to the passenger will on the whole be better achieved by operators in the market who are alive to the needs of customers and strive to meet them, and by local authorities providing subsidy for any additional services they believe necessary on social grounds.

(2) "They involve the loss of cross-subsidy on a scale which we do not believe it possible to recoup from cost savings even of the order predicted in the White Paper."

19. The Committee discussed extensively (paragraph 96-103) whether preservation of non-commercial cross-subsidy is in principle desirable or not, and appear to accept, in guarded terms, that the higher fares providing the cross subsidy drive away passengers and thus contribute to the decline in bus patronage; that cross-subsidy may be inefficient; and that it may be unfair.

20. As to the amount of cross-subsidy present in the system, the Committee say (paragraph 95) that it is difficult to come to a precise conclusion. In some rural counties they would expect the benefits of a 30 per cent cost saving to exceed the cost of any lost cross subsidy,

d in others that it would not. They therefore say (paragraph 197) that the magnitude of the services that would be lost through the introduction of competition and the consequent loss of cross-subsidy is difficult to gauge.

21. The Committee believe that it is significant that many of the Shire counties which have submitted evidence have calculated that the alternatives they will face are either service loss or increased direct subsidy. These are certainly matters for concern. It must be pointed out however that measuring cross subsidy is not straightforward in practice and is dependent on the method of cost and revenue allocation used. Further, these comments assume that no cross subsidy will exist for purely commercial reasons. They also do not reflect the likely reduction in costs which will follow deregulation. The Government's evidence pointed out that in many rural areas cross subsidy is less important than direct subsidy from the county or regional council. In these cases the elimination of cross subsidy will have less impact. In urban areas with high direct subsidy leading to low fares, cross subsidy is also less important. It seems probable, in the light of the likely variation in the existing level of cross subsidy, that there will be variations in the extent to which cross subsidy will be offset by cost reductions. The Government remains of the view, however, that overall the loss of cross subsidy should be offset by the gains from the non effective use of direct subsidy for which the Transport Bill provides.

22. Extensive cross subsidy has accelerated the decline in patronage; correspondingly, with less cross subsidy this decline will be reduced. The efficiency gained from competition will further reduce fares and attract more custom. But increased patronage is unlikely to be confined only to the better used services; people will once again get into the habit of using buses as their main mode of transport, and a more general increase in patronage can be expected.

23. It is in part because this general increase in patronage may take some time to flow through that the Government is providing an additional transitional grant for local services in rural areas. This grant is of course entirely additional to the substantial level of subsidies already provided by local authorities.

24. It is appropriate at this point to consider the Committee's view on cost savings.

25. The Government has estimated that there is scope for improvements in the efficiency of the industry which would overall reduce costs by up to about 30 per cent, and considers that competition is needed to secure these savings. The Committee doubt whether the evidence supports the Government's estimate. But the Committee's consideration of the evidence is partial.

26. They cite (paragraph 50) the statement in evidence by the Association of County Councils that the difference between public and private operator's costs were 10% at the most. They ignore evidence from the Department (HC 38 viii, paragraph 11) that in Nottinghamshire and Derbyshire the costs of the local independents in receipt of revenue support appear to be 30% less than those of public sector operators. They also cite (paragraph 39) the comparison of operator's costs in the Guildford-Cranleigh area, but fail to mention, as the Department's evidence does, the finding that the average difference in unit costs between Independents and the NBC Companies was of the order of 20%; and that the major factor underlying this was the higher number of staff per vehicle, and not earnings, which were comparable.

27. The Committee also dismiss (paragraph 51) the significant improvement in Midland Red (West) productivity on the grounds that it was not the effect of deregulation on the Hereford and Worcester Trial Area where the company operates which led to the improvement, but the fact that it had previously been essentially an urban operating company with working agreements related to the Birmingham labour market and that the process of renegotiating working agreements was already under way. The separation of Midland Red took place in 1973 when its Birmingham operation was purchased by West Midlands PTE. Thus in ten years there was little progress, whereas major changes were introduced relatively shortly after the start of the trial area.

28. The Committee agree that there are cost savings to be achieved by major operators but suspect that overall they are smaller than the White Paper presages. On the basis of the analysis set out in the Government's evidence, and of the fact that all the available evidence

on costs points to the feasibility of major cost reductions, the Government adheres to its estimate of the gains which are possible.

(3) "They presume, in our view incorrectly, that a workable basis can be found for separating the unremunerative services from the potentially profitable ones which will produce a stable outcome."

29. The Committee's discussion of the point in Section VII(ii) of the report seems to support the Government's view, since they state "we believe that it should be possible to implement the tendering system with little danger of any greater instability of service than the secular decline in demand would have caused in any event." (paragraph 259). Work already done by tendering authorities, and by the industry, does seem to suggest that there is a workable basis for identifying the unremunerative services which need to be put out to tender.

(4) "They presume that on the road competition will quickly and relatively without waste converge to give stable services and fares at levels which are in the best interest of the consumer."

30. This argument by the Committee presumes that under present arrangements all resources are used at maximum efficiency and without waste; which the Committee's own inclination for change seems to undermine. The issue to be addressed is whether the resources in the industry will under the Government's proposals provide better and more efficiently managed services. The Government is convinced that this will indeed be the outcome.

31. On fares, the Government does indeed believe that competition is likely to give fares at levels which are in the "best interest of the consumer." In very many cases they will be fares below present levels. The Government does not expect and has not said that fares will stabilise very quickly, and does not believe that stability of fares is more important to the traveller than lower fares.

CONCLUSION

32. The Government do not understand why, given the evidence which was presented to it, the Select Committee inclined towards the policy of

comprehensive competitive franchising which it has proposed. It is a pity that the Committee took no evidence about the effects of such a policy, and failed to seek evidence about it, either from the Industry or from Government witnesses. If they had it would have brought to their attention the major disadvantages associated with comprehensive competitive tendering.

33. The industry has been in chronic decline. The facts given in Cmnd 9300 remain as important as they were before the Select Committee reported. Thirty years ago 42% of all journeys were by bus; today the figure is just 8%. During the last ten years there has been a 28% fall in ridership. Yet there is general agreement on both sides of the debate that bus services are vitally important, particularly to old people, and to the less well-off for essential jounreys.

34. No government could allow this decline to continue, and this Government does not believe that comprehensive competitive franchising provides the necessary solution. The Select Committee's proposals would continue to restrict the introduction of new services; they would not maintain pressure on the industry's rising costs; and they would perpetuate the practice of overcharging passengers on the more heavily-used services which has been one of the roots of the industry's decline.

35. We believe that the industry needs to be opened up to proper competition, providing the stimulus for efficiency which other industries regard as normal and the impetus for better service which customers have a right to expect. We are confident that the form of competition proposed in the Transport Bill is the best way of achieving that. It provides the best solution both for the industry and for the customer.

ANNEX

THE GOVERNMENT'S RESPONSE TO OTHER MATTERS RAISED BY THE COMMITTEE

Recent Trends in Public Transport

1. The Committee accept (paragraph 7) that the White Paper correctly points to the decline in public transport and to the rise in car ownership as a major force in personal travel since the 1950's. It goes on to consider the extent to which this decline is due to regulation, or to other factors.

2. While much of the analysis of the decline in bus services is common ground, there are statements which need correction. In paragraph 27 the Report states "whatever has been said in the White Paper it does seem that there are other causes for the decline other than regulation and these encompass:

- increased car ownership;

- lack of investment;

- high fares (as costs are spread over fewer passengers);

- failure to meet market needs - due to regulation".

3. But the White Paper explicity recognises in paragraph 1.3 that the rise in car ownership in the 1950's has changed patterns of personal travel and has made it more difficult to provide good public transport. The Government does not agree that there has been lack of investment in the bus industry. Over the period 1972 to 1982 £1347m was invested in buses and coaches with the assistance of £465m in grants from the Exchequer. The argument that high fares have also caused decline because costs are spread over fewer passengers ignores the preponderent effect of cross subsidy, provided under the regulatory system, in raising fares; had cross subsidy over the years been at commercial levels, there is little doubt that the decline would have been significantly less.

4. The Government therefore concludes that it is the twin elements of rising car ownership and regulation which are primarily responsible for the decline in bus services.

5. Paragraphs 24 and 25 report allegations that the main purpose of the Transport Bill is to hit Metropolitan Authorities and curtail their expenditure, and comments that it would seem unduly harsh to destabilise the whole bus industry for the sake of some Metropolitan Authorities.

6. As it has made clear on a number of occasions the Government's determination to reduce the levels of revenue support in metropolitan counties had been announced long before the White Paper was published. The Transport Bill is not about reducing subsidy in the Metropolitan Authorities; it is about improving road passenger transport services.

Innovation

7. The Government notes the Committee's view that although the licensing system has formed an impediment to some new initiatives much innovation has already taken place within the present legislation. It is however obvious that the impediment presented by the licensing system is bound to restrict innovation mainly to operators already in possession of particular licenses. It is also noteworthy that Strathclyde's minibus services were only introduced after lengthy battles in the "traffic courts", and that the minibus experiment in Exeter started some 2 years after similar proposals, were put forward for services in London.

8. The Committee accept (paragraph 62) that there is potential for minibuses in areas where demand is sparse; but is concerned that in cities the admitted benefits of higher speed, lower waiting time and lower operating cost per vehicle mile may be outweighed by reductions in conventional bus services and by increased congestion. The Committee concludes (paragraph 126) that "in finding a role for minibuses in urban areas there is a pressing need to take cognizance of adverse spin-off effects". It has to be recognised, however, that minibuses are more manoeuvrable than conventional

buses, and that feature, together with higher acceleration, reduces their congesting effect. Nor is their potential for attracting passengers from cars sufficiently recognised. The proposed powers of the Traffic Commissioner to deal with congestion are discussed in paragraph 21.

Competitive Practices

9. Paragraph 105 of the report states that "first the White Paper and now the Bill provide no adequate system of monitoring and control". But since the Bill provides, as paragraph 105 recognises, power for the traffic commissioner to take action against operators who adopt unacceptable practices, since the existing legislation and organisation of the Department of Transport provide the means of enforcement, and since the Government is committed to providing extra manpower to ensure (as the Committee seek in paragraph 118) that that enforcement is adequate, the Government feels that the Committee's observation is incorrect.

10. The Committee also state (Paragraph 109) that "the White Paper does not acknowledge as problems matters such as the provision of Sunday services or instability of services, and regrets this omission". The Government has always recognised that since Sunday services are generally unprofitable, it would be up to local authorities to secure their provision by purchasing these services following a tender.

11. As far as instability of services is concerned, the registration system in the Bill would require operators to give prior notice both of introduction and of withdrawal of services. The period of notice, which the Government currently believes should be 42 days, will limit the frequency of any changes. On subsidised services stability will be provided by contract with the operator. In the environment to be established by the Transport Bill some of the features of the Hereford Trial Area (for example cross subsidy within the National Bus Company which allowed the running of free buses) will be much inhibited. No operator will have a protected market elsewhere, and all operators will be under the discipline that costs incurred will have to be recovered. It will be in the

operators' interests to run services which attract the public and it is the Government's expectation that the major operators, who currently run virtually all stage carriage services in the country, and new entrants will see it as being to their commercial advantage to avoid irrational tactics of the sort described.

12. To the extent that the recommendation is intended to apply to all services, the Government therefore rejects the Committee's recommendation that the matter of timetabling should be one for which the Traffic Commissioner should be specially allowed to determine traffic regulation conditions. This would merely be the reintroduction of regulation. The Government does however accept that specific traffic regulation conditions relating to timing may be needed in some congested areas where the traffic authority has demonstrated that without action of this sort severe congestion would result.

Taxis

13. It is noted that the Committee approve of the discretion given to local authorities to tailor the pace and extent of the relaxation of quantity control to their local circumstances. But in recommending against the general deregulation of entry to this market (para 137), the Committee has given too much weight to the interests of the suppliers at the expense of the consumers. Moreover, in suggesting that a district council might take into consideration the value of licence plates in determining any move to free entry, the Committee appear to have overlooked the fact that it is in the areas where there is an undersupply of taxis that these plates have attained high values. The licensing system was designed to protect the public, not to protect existing licence holders from competition from others qualified to enter the trade, nor to create a trade in licences. These licences were originally issued at a nominal fee and the Government can see no reason why compensation should be paid for the loss of the holders' expectations. Those who have bought them have enjoyed the higher earnings, the expectation of which gave rise to these values in the first place, and have taken a commercial risk that the local authority might issue more licences at any time, as some districts have done recently.

Shared Taxis

14. The Government welcomes the support of the Committee for the provisions which will enable shared taxis to be used where adequate conventional public transport services has not been achieved. The Government's proposals will permit such services to develop progressively in accordance with local circumstances, whether in urban or rural areas. The provisions which are now contained in the Transport Bill meet many of the concerns expressed to the Committee. In particular, taxis will only be free to go from bus stop to bus stop if operating a registered local service.

15. On the question of passenger safety, (paragraphs 142 and 143) taxis offering shared services under the provisions of Clause 9 will continue to be subject to regulation as taxis and, until an arrangement to share has been made, will remain compellable, that is to say the first passenger will have the right to make an exclusive hiring. Equally, when booking a shared hire car, a prospective passenger may insist on the provision of an exclusive service.

16. Finally, the Government does not accept that the taxi trade had been given insufficient opportunity to make their views known on these proposals. In addition to issuing the White Paper and a subsequent consultation paper on the taxi and hire car proposals, the Government has met many times with representatives of the taxi trade. Further meetings are planned at which they will have the opportunity of making known their views on the way in which these services should be provided and regulated.

Congestion

17. The Select Committee recommend (paragraph 153) that if "free entry is proceeded with, some direct powers are given to the local authority to enable them to avoid congestion".

18. In reaching this recommendation, the Committee questioned whether potential sources of congestion had been properly identified, whether the magnitude of likely effects had been properly assessed and whether the provisions for meeting any problems were adequate.

19. Public service vehicles operating in major urban areas at peak times could give rise to additional congestion; but they represent only one class of vehicle which may contribute to congestion, and it is not necessarily right to single them out. Under the Road Service Licensing arrangements, local authorities have been able to represent to the Traffic Commissioners that routes or stopping places should be altered to improve traffic flows and reduce or avoid congestion. But in considering congestion, the traffic authority will need to have regard to the interests of all road users, including passengers on public service vehicles in deciding on the appropriate pattern of traffic management.

20. Following deregulation, local authorities will, under the Road Traffic Regulation Act 1984, have power (except on trunk roads) to determine places where buses may stop, and they will be able under traffic regulation orders under that Act to determine which highways should be prohibited to public service vehicles.

21. Since those powers do not normally allow for speedy action, the Government has, as the Committee recognise, provided powers for the Traffic Commissioner to place a condition on the licences of operators running local services determining their routes and stopping places, including conditions as to timetabling in severely congested areas, where it appears to him necessary to do so to prevent danger to road users or severe traffic congestion. The Government disagrees with the Select Committee's conclusion that the measures contained in the Bill, together with existing powers underthe Road Traffic Regulation Act 1984, are inadequate for the purpose. The combination of these powers should be quite adequate for quick and efficient action where circumstances require.

Co-ordination with Education Services

22. The report (paragraph 172) states that the White Paper ignores the major issue of school transport and instead pays lip service to the need for better use and co-ordination of community services. In fact, the White Paper (paragraph 3.12) stated that the Government wanted to see the best use being made of transport already provided for special purposes and said that it would consider how to stimulate the better use of services run on behalf of education

health and social service authorities and others. The provisions of Clause 80 of the Transport Bill, placing a duty on transport and education authorities to co-operate with each other to obtain the best value for money when subsidising transport services is a direct result of the White Paper's proposals. The Government is grateful for the welcome the Select Committee gives to this provision.

23. The report however states there is no means for local authorities to integrate educational services with commercial routes. This is not so. Under the provisions of the Bill holders of school contracts can offer empty seats on those services to the general public on a commercial basis, operators of commercial services can tender for contracts to carry schoolchildren either on the existing routes or by varying the commercial service to meet the education authority's requirement, and operator can provide season tickets for schoolchildren.

24. The Committee may have overlooked the fact that operators will be keen to increase their income, by carrying schoolchildren at local authority expense, where it is in their commercial interest to do so. The recommendation of the Committee that local authorities should have a duty and a power to co-ordinate commercial public services with education services implies that commercial services should be forced to bear costs which properly should fall on the education authority. The Government therefore rejects the recommendation. Local authorities will however have the power under regulations which the Government intends to make when the Bill becomes law to negotiate educational concessions and minor alterations in services in order to serve education premises.

Concessionary Fares

25. The Committee believe (paragraph 190) that discretion should be left to the local authority to decide what forms of concessionary device it wishes to use. The Government is in complete agreement and neither the White Paper nor the consultation documents for the Bill have suggested any proposal to the contrary

26. The Committee favours (paragraph 184) the provision of broadly similar concessions in all areas. It is not clear from the Report whether the Committee are proposing that all authorities should offer only half fare schemes. The Government's policy is that local authorities should retain their autonomy to decide whether to have a scheme and if so what form and level it should take.

27. The Committee also draw attention to the absence of any obligation on operators within an area to participate in the scheme. While the Government's view is that it will be in the interests of operators to enter schemes, it has recognised the concern of councils that operators might refuse to take part in an attempt to make a better bargain with councils for reimbursement for "pass" schemes. It has therefore brought forward amendments to the Bill to give local authorities powers to compel operators to join their scheme, and to provide a mechanism under which operators of particular or specialised services could be exempt, either by agreement with the council, or following appeal.

28. The Committee recommend (paragraph 190) provision of some financial help for the development of the introduction of an electronic device which would simultaneously verify passes and provide control information for the reimbursement process.

29. The Government does not believe that its proposals militate against the use of "pass" schemes, though it recognises that administration could be made much simpler through the use of electronic machinery. The Government will consider further with the industry, local authorities and others how the development and introduction of electronic machinery for this purpose might be assisted.

Effects on Local Planning

30. The Committee recommend (paragraph 200) "that the county council or appropriate metropolitan authorities should have the direct power to impose traffic regulation conditions and not have to operate through the Traffic Commissioner".

31. As discussed earlier in paragraph 21, the Government believes that local authorities will have adequate powers to deal with the possibility of serious danger to the public or severe traffic congestion through their powers under the Road Traffic Regulation Act 1984 and the provisions in the Bill for Traffic Commissioners to impose conditions on operators licences.

32. The Government does not believe that local authorities should themselves determine traffic regulation conditions, since these will affect the commercial operation of services provided by the industry. To place traffic regulation conditions in the hands of the local authorities would enable them to affect the operation of the market for local bus services without necessarily taking into account the commercial interests of bus operators to serve their customers. Equally, the Government, not local authorities, have responsibility for Trunk Roads. The Government therefore believes it is appropriate to have the Traffic Commissioners acting as arbiters in these matters, since this is a role to which they have grown acustomed over many years, and because conditions are to be attached to operator licences, which are under the Commissioners control.

33. The Committee also recommend (paragraph 210) that the grant for innovative services should be paid via the county council, on the grounds that they would have responsibility for formulating public transport policies to subsidise non profitable routes and that a confusion of funding bodies and procedures will not aid the development of rural transport.

34. The Department of Transport has for a number of years been encouraging the development of new and unconventional transport schemes in rural areas, often in conjunction with county councils. It was very useful to have available small amounts of money to prime the pump for such schemes; however use of research funds was often not appropriate. The Development Commission has for 75 years been involved in rural development, working in harmony with local authorities, and the Government believes that its special expertise will prove invaluable now that it is to have a particular transport role. There should be no more confusion than in the other fields where the Development Commission is successfully engaged.

Details of Implementation

35. The Committee have recommended a number of changes to the implementation of the proposals in the Transport Bill, and the Government's view on them is set out below.

Registration Authority

36. In paragraph 240 the Committee recommend that the appropriate local authority unit be the registration authority. As the consultation document on registration recognised, there are good arguments to justify the appointment either of the Traffic Commissioners or of the relevant local authority as the registration authority. Both bodies will need to have the information contained in the registration in order to carry out their function in relation to policing the system and to procurring subsidised services respectively. The Government decided that on balance it would be more appropriate for the Traffic Commissioner to undertake the role of registration authority for the reason set out in the paper "Changes to the Government's proposals following consultation" issued on 31 January 1985. It is also worth noting in this context that a crucial requirement for registration of the service is the possession by the applicant of a psv operator's licence. This is a matter which only the Traffic Commissioner has the information to be able to determnine.

37. The Government therefore remains of the view that the Traffic Commissioner should be the registration authority, while recognising that the information will need to be provided at much the same time to the relevant local authority.

Registration Conditions

38. The Committee propose (paragraph 241) that registration should include information about termini, routes, stopping places, timetables of a specific nature and fare levels. With the exception of fare levels, the Government believes that this information may indeed be necessary, and will be consulting on the necessary regulations. It does not believe that fare levels should be a fixed element of the registration. In a competitive market there may be

need for changes and it seems wrong to constrain unduly the ability of operators to react flexibly in the market. Operators will, as now, be required to have fare tables in the vehicle, and local authorities are likely to have access to information about fare levels as part of their role in providing concessionary fare schemes.

39. The Committee's comments on the registration fee (paragraph 242) are related to fees if the registration authority were to be the relevant local authority. The Government sees no reason why the fee should cover the cost of publication of comprehensive timetables by the local authorities; the Government hopes that if they produce them, local authorities will (as for example has happened in Plymouth) be able to benefit from a partnership with commercial advertisers or local newspapers.

40. The Committee also suggest (paragraph 243) that existing operators should register all relevant services rather than acquiring registration by default. The Government agrees, subject only to the exception that services for which a road service licence is granted between Royal Assent and deregulation should have an automatic registration.

41. The Committee propose (paragraph 244) that 2 months notice of a new service and 3 months notice of a withdrawal should normally be given unless county councils or metropolitan authorities agree to earlier implementation or withdrawal, and that 21 days notice should be given of variations to a service.

42. The Government's current view is that the period of notice and the period of withdrawal of a service should normally be 42 days, but that the Traffic Commissioner should have discretion to allow earlier implementation or withdrawal in certain specified circumstances. These are matters for regulations, and the Government will be consulting interested bodies in due course.

43. The Committee suggest (paragraph 245) that all local transport services which carry passengers at separate fares should be registered to enable the county council to obtain a full picture of transport provision in its area. The Government agrees that all

local services as defined in the Bill must be registered; it does not believe however that it would be helpful to require registration of pre-booked taxi or hire car journeys or of taxis carrying passengers at separate fares from a taxi rank or other appointed place, since by definition these journeys are random and registration would seem to be inappropriate.

44. The Committee recommend (paragraph 247) that county councils and metropolitan authorities should be allowed to negotiate with operators for cost effective improvements in services. This is a matter on which the Government will be consulting before making regulations on tendering provisions, but in principle the Government sees virtue in providing powers for local authorities to negotiate minor variations in commercial services provided that the cost involved is not significant.

45. The Committee propose (paragraph 248) that there should be powers to regulate the spread of bus arrivals to ease congestion and improve the service to the public. As discussed in paragraph 12 above, the Government accepts that timetabling of arrivals and indeed of departures may be necessary in some congested areas, and the Traffic Commissioners will have the powers to apply traffic regulation conditions for this purpose.

46. In paragraph 250 the Committee recommend that traffic management via traffic regulation conditions should remain in the control of the local highway authority; that traffic regulation conditions should be attached to a licence only with the approval of the highway authority; and that the Traffic Commissioners should be obliged to follow the advice of the highway authority with respect to such conditions; and that there would have to be machinery for appeal against unreasonable conditions.

47. The Transport Bill places responsibility for the application of traffic regulation conditions with the Traffic Commissioner, since he will be the body administering operator licensing. The Bill recognises, however the very great interest of the traffic authority and indeed that authority and that authority alone will have the power to request the Traffic Commissioner to determine conditions.

48. The Government recognises that in some circumstances it may be necessary to impose conditions immediately where it seems likely that the service as registered would cause danger to road users or severe traffic congestion. The Bill provides for imposition of conditions without delay and for the traffic commissioner to consider representations from operators at a later date.

49. The Government does not believe that the Traffic Commissioner should be obliged to follow the views of the traffic authority with respect to traffic regulation conditions, though in many cases he may do so. But there will be cases where the traffic authority is unable to satisfy the Commissioner that the criteria for imposition of a traffic regulation condition have been met, and in these cases the Traffic Commissioner would quite properly refuse to impose or impose an amended condition.

Observance of Registration

50. The Committee say (paragraph 251) that there should be a sufficient penalty to prevent malpractice and poor provision of services and sufficient flexibility to overlook occasional unexpected occurrences. The Committee while welcoming the introduction of fuel grant reduction as a sanction question whether there is a sufficient control.

51. The Government believes that it will be in the interest of holders of PSV licences who wish to run registered services to behave properly and rationally in managing their services and to run reliable services to ensure that their share of the market is maintained or increased. The sanctions against bad behaviour are, in the Government's view, significant. The loss of fuel duty rebate for running unreliably should be a major incentive to operators to behave well; the additional sanctions on operator licensing, which would allow Traffic Commissioners to refuse operators the right to run a particular or indeed all registered services, and ultimately to take away the operator's licence, are major and enforceable sanctions.

Tendering

52. The Committee suggest (paragraph 264) that tenders for geographically adjacent services should form part of each tender round and that operators should be permitted to make a single tender to cover several services if they wish; and that joint tenders submitted by two or more operators wishing to take advantage of interworking possibilities should be permissible. The Government accepts that the former proposal will be appropriate, and would not wish to discourage the latter providing that the agreements between the operators were not anti-competitive.

53. In general the Government accepts the Committee's conclusion that it is best to leave details of tendering to the local authorities concerned; the Bill does however contain powers to make regulations about tendering should difficulties arise.

54. The Government welcomes the Committee's agreement that the maximum period of tender should be 5 years, and that the Bill's requirement that the grounds for acceptance of particular tenders should be stated is a sensible basis on which to proceed.

55. The Government also accepts the Committee's view that no great dangers exist in allowing county councils on the one hand, and districts on the other to be involved in tendering. The Government believes that authorities will work out between themselves appropriate arrangements.

56. The Committee also argue that local authorities should have a statutory right to information and to carry out surveys on local bus services. In the Government's view the powers of authorities both under the concessionary fare regime and under the tendering proposals should be sufficient for them to acquire the information necessary for their functions without the need for a statutory requirement on all operators to provide sensitive commercially confidential information to the councils.

Restructuring the bus industry

National Bus Company

57. The Government is grateful for the Committee's endorsement of the need for NBC to split its operations into accountable units which enable the operator to be more aware of local needs and circumstances.

58. The Committee recommend (paragraph 274) that the Government should give greater priority to the need to encourage fair competition, and less to the need to realise the highest possible price in deciding the size of the units and which NBC will be sold.

59. The Bill makes it clear that the prime duty of NBC in making proposals to the Secretary of State for the disposal of the operation of NBC should be to promote sustained fair competition. The Government has already asked NBC to consider how its operations might be reorganised so that they can compete fairly on deregulation. But the structure of disposal of the operating companies, once competing fairly, will be a matter which will depend crucially on the willingness of purchasers to buy one or more of the operating subsidiaries.

60. The Committee suggest (paragraph 275) that successful privatisation is likely to require the writing off or restructuring of NBC debt, thus giving any private version of NBC an advantage over the present one. The Government believes that this interpretation of the provisions of the Bill is not quite correct. Any purchaser of a part of the National Bus Company will need to raise the money for that purchase, whether by borrowing or by share issue, and the investment will have to be remunerated in much the same way as NBC remunerates the existing capital debt. Sales of companies can be expected to produce proceeds which can be applied to repay the debt which NBC currently owes to the Government.

National Express

61. The Government infers from paragraph 276 that the Committee wish NBC to dispose of National Express in its present form, drawing largely on the subsidiary operating companies for its resources, and that it should retain the crucial control of the major terminal facilities. The Government awaits proposals from the National Bus Company for the privatisation of National Express, and will be concerned to ensure that competition with National Express services is not inhibited by the pattern of disposal.

Municipal Bus Companies

62. The Committee opine (paragraph 281) that the formation of companies will do little to promote fair competition and that the financial separation of undertakings from their councils could be achieved without removing the undertaking from direct local control.

63. As the White Paper made clear, the Government's intention is that all bus operators in the new deregulated market should operate on a comparable basis without the possibility of concealed subsidy from PTEs or local authorities which own bus operations. The Government believes that the Companies Act structure will provide not only a barrier to concealed subsidy but also a better framework within which managers of the existing undertakings can improve efficiency freed from any unbusinesslike political constraints.

64. The Committee also argue (paragraph 280) that the provisions in the Bill restricting the financial freedom of the new municipal companies are a restrictive practice and against fair competition. The Government accepts that the financial and other controls will to some extent restrict the operations of district council and PTE undertakings, but would point out that while they are wholly owned by a local authority the Companies will have the advantage of the implicit guarantee that in the case of insolvency creditors claims will be met by the parent local authority. That implicit guarantee seems a reasonable exchange for the controls which will remain.

Passenger Transport Executives

65. The Committee accept (paragraph 285) that there is a need for the breakdown of the size of some public transport undertakings in the present PTEs, but argue that there is a case for an effective public transport authority or some such co-ordinating body to continue.

66. The structure of local government in the metropolitan areas after the Local Government Bill is passed will provide for a Passenger Transport Authority to continue to raise a precept for local transport and to set policy for the Passenger Transport Executive. The Executive will have wide powers to subsidise rail services, to promote public transport and to buy additional bus services following a tender procedure.

Bus Stations

67. The Committee recommend (paragraph 288) that further attention be given to the mechanisms for ensuring that control over bus terminals is not used as a means of securing unfair advantage in the provision of local bus services.

68. The Government accepts that bus stations may have two separate functions; they may act as interchanges between bus services, or as focal points for passengers providing a single place from which they can start many of their journeys; and they may also have the function of assisting the traffic authority in its management of traffic in towns by removing buses from bus stops on crowded streets.

69. The Government believes that the powers of the Bill to provide traffic regulation conditions may be used by the traffic authority to ensure that buses use the bus station where this is necessary to avoid congestion; it accepts, equally, that it is right that where a bus station is owned or controlled by a dominant operator that operator should not be able to refuse entry to the bus station to competitiors. In addition to the provisions in the Bill relating to bus stations owned by PTEs and local authorities, the powers of the Office of Fair Trading under the Restrictive Trade Practices Act will still apply to bus stations.

70. Where there is congestion in bus stations, the Government remains of the belief that that congestion should be reduced through charges for use of the station.

Institutional arrangements

71. Commenting on the provisions in the Bill which enable the Railways Board to secure the provision of bus substitution services, the Committee refer (paragraph 293) to the view expressed by the Bus and Coach Council that to make bus substitution services eligible for central Government Grant and to safeguard their future by means of a statutory procedure while offering no such safeguards for any other bus services is to apply different standards with no rational foundation. The Committee conclude that there does seem to be a dual standard operating and, by implication, a distortion of resource allocation.

72. This conclusion overlooks the rationale behind the inclusion in the Bill of the provisions relating to bus substitution services. The Government shares the view expressed by the Transport Select Committee in their second report for session 1982-83 that guaranteed and where necessary subsidised replacement bus services may, in some cases, offer passengers a reasonable alternative to existing rail services at less cost. It is important - and entirely reasonable - to distinguish between bus substitution services, intended to be operated as an integral part of British Rail's rail passenger network, following withdrawal of a rail service and after completion of the full closure procedures for the service concerned, and other local bus services provided as part of the bus network.

73. The Committee comment (paragraphs 294 and 295) on the concern that public service vehicles run under permit, rather than under the normal operator licensing provisions, may have an unfair advantage in the new market. The Government does not accept this. Operator licensing is not appropriate for totally non-commercial activities. The voluntary sector plays an invaluable role in supplementing conventional transport especially for disabled people and in deep rural areas. The permit system enables the voluntary sector to play that role; it does not enable them to usurp the place of commercial operators, nor is there any evidence that they wish to do so.

74. The Committee comment (paragraph 296) on the problems of comparability attendant on the development of an extended role for taxis and hire cars within the spectrum of public transport services. Taxis running registered services will be subject to drivers' hours regulations, but fares on registered services will not be subject to control by the licensing authority. Fuel duty rebate will also be available to taxis running registered services, though the taxis will continue to pay VAT. While recognising that the arrangements for buses and taxis are not wholly comparable, the Govenrment does not believe that taxis will have an unfair advantage over other public service vehicles.

Structural controls

75. The Committee suggest that the structure of the industry after deregulation, even taking account of the proposed break-up and sale of NBC and the changes in the locally owned sector, will not be conducive to fair competition. The Government however remains of the view, as set out in Chapter 5 of the White Paper, that the bus industry does not show substantial economies of scale; it also seems clear that there are no very significant barriers to entry. Accordingly there are no strong intrinsic reasons why the industry should tend towards concentration; and equally small firms will be able to compete effectively with large ones.

76. It should also be remembered that even the present structure of the bus industry entails more than one sizeable operator (for example a National Bus Company subsidiary and a Passenger Transport Executive or municipal undertaking) in very many urban areas, and these operators therefore represent strong potential competition for each other once regulation is removed; moreover the existing legislation on mergers applies in the bus industry as elsewhere. In addition of course there is the potential competition presented by the 5,500 independent operators. Indeed, in a market where there are low barriers to entry, as is the case in the bus industry, existing operators need always to take account of potential as well as actual competition. The mere knowledge that the market is contestable will tend to impose competitive pressures on existing operators behaviour.

77. The Committee comment (paragraph 297) on suggestions of predatory behaviour by NBC to fight off competition in Hereford (although there is also mention of lack of firm evidence). However the Government takes the view that it is not reasonable to assume that any behaviour of this kind observed in Hereford would or could be repeated on a wider scale. Deregulation of only a small part of the market means that major operators are able to shift resources (for example vehicles, or money to support what would otherwise be unsustainably low fares) from other parts of their undertaking to counter a limited degree of competition. This would not be possible if actual or potential competition were faced everywhere. This is why the Government has concluded that it is right for deregulation to be comprehensive.

78. The Report nonetheless expresses concern at the possibility of predatory practices, and suggests various possible remedies. One of course is comprehensive competitive tendering, but this White Paper has already indicated the major shortcomings which the Government sees in such a system. The Government has already carefully considered the other protections against predatory behaviour which the Committee suggest, including a requirement that fares should be maintained at any one level for a reasonably lengthy period of time, and the proposal (paragraph 302), that additional powers should be given to the Traffic Commissioner. However the Government has concluded that such measures could be unduly bureaucratic and restrictive, and that any benefits they might bring would be outweighed by the risk of denying bus passengers the advantages of a vigorous and effective competitive market system. Indeed, the Government believes that bus passengers have been without these benefits for too long.

79. Accordingly the Government takes the view that there is not a sufficiently strong case for the bus industry to be placed on a different footing in respect of competition legislation from other industries; in particular the Government concludes that to give the Traffic Commissioners powers in the field of competition would be to place undue responsibilities upon them which they are not well equipped to fulfill. The Government will remove such exemptions from the existing range of competition and monopoly legislation as the bus industry presently has, although the industry is already subject

to the legislation on anti-competitive behaviour; indeed only recently an operator of a commuter coach service, with a stage carriage license, ended his practice of offering free travel after a brief preliminary investigation by the Director General of Fair Trading.

80. In paragraph 304 the Report raises the question of the bus stations; this issue is considered elsewhere in this Response. Paragraph 304 also raises the question of agreements between operators, commenting that "the border line between desirable and undesirable restraint of collusion is far from self evident". The Government agrees, but considers that agreements between operators are best dealt with under the existing restrictive trade practices legislation, in the same way as for most other industries. Accordingly the Government proposes to end the bus industry's present partial exemption from the Restrictive Trade Practices Act 1973; this means that should agreements go before the Restrictive Practices Court it will be open to the parties concerned to seek to satsify the Court that the agreement is not contrary to the public interest.

81. The Committee quote (paragraph 305) dissatisfaction with the amount of consultation before the publication of the White Paper. In fact when the Secretary of State announced in his speech to the Bus and Coach Council on 15 February 1984 that he had asked the Department to carry out a study of the organisation and regulation of the bus industry, he also invited views from the industry. At a speech to the Association of County Councils on 29 February, the Secretary of State again said he would welcome views. At about the same time the Department wrote in similar terms to the Association of District Councils and the Association of Metropolitan Authorities inviting views. Ministers and officials had a number of meetings with these organisations and others over the following months. A Departmental Working Group was set up with the National Federation of Taxi Associations and Scottish Taxi Federation in June to discuss the feasibility of the proposals for taxi-sharing. These meetings were in addition to correspondence and less formal contacts during that period.

82. In paragraph 306 the Committee quote dissatisfaction with the time allowed for consideration of, and response to, the consultation papers which the Department issued following the publication of the White Paper. The Government deliberately set a demanding timetable for consultation and implementation because of the vital need to minimise the period of uncertainty facing the industry. In the event the timescale proved realistic. The consultation exercise was invaluable in translating the White Paper's proposals into detailed legislative form and the Transport Bill was published in time for 1984/85 session.

83. In paragraph 307, the Committee argue that the Bill is seeking to do too much at once. The Government's view is that deregulation unaccompanied by the other changes would not be enough to promote fair competition and would not have a significant impact on the level of costs or the standards of services. The continuation of the present organisation of the bus industry, mainly in large undertakings in the public sector and largely owned by subsidising authorities, would allow those operators to use their market dominance to destroy competition which emerged in a deregulated environment. The continuation of block subsidy would not result in the necessary downward pressure on costs, and it would inconsistent with the introduction of competition; block subsidy relies on the protection of operators on their profitable services so that they can cross subsidise their unprofitable ones. The Government believes reform must be introduced on all these fronts if the policy is to achieve its objectives. It accepts that major adjustments by the industry and the local authorities will be necessary over a fairly short timescale but it believes the essential changes can be made by the Autumn of 1986.

ECON POL
privatisation – Vt 12

DSG
File
bc: Hartley Booth

10 DOWNING STREET

From the Private Secretary

24 May 1985

Dear John

DISPOSAL OF SURPLUS LAND IN PUBLIC OWNERSHIP

The Prime Minister has seen your Secretary of State's minute of 20 May. She welcomes the increased use by the Secretary of State of his power of direction and welcomes the proposal to invite potential purchasers to identify publicly owned sites which should be placed on the register. She has commented that for this initiative to bear fruit, it is essential that your Secretary of State should be energetic in using his power of direction so that sites which come on to the register in this way are eventually sold.

I am copying this letter to the Private Secretaries to members of Cabinet.

Yours ever

Tim Flesher

pp Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.

SRW

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cc: Mr. Booth

CONFIDENTIAL

PRIME MINISTER

DISPOSAL OF SURPLUS LAND IN THE PUBLIC SECTOR

Mr. Jenkin

(i) reports on progress in the issue of directions that surplus land should be sold from the Land Register;

(ii) reports his intention to encourage private individuals to identify public sector sites which should be placed on the Register and which could subsequently be the subject of direction.

The action at (ii) represents a formalisation of the arrangements that exist at present. Any developer can write to the Secretary of State to urge that a particular site should be placed on the Register but this action will make it clear that such representations will be welcome. Mr. Jenkins also suggests that this process could be given a statutory framework, perhaps in a Private Member's Bill though he could always add a clause to his proposed Bill on Planning. If this process is to bear fruit, however, it is important that the Secretary of State is active in using his powers of direction. It is no good just getting land on to the Register.

Agree

Yes (i) you commend the increase in the number of directions being issued and the plans to computerise and publicise the Register.

Yes (ii) you endorse the proposals to encourage developers to nominate surplus sites.

Yes (iii) you comment that this process needs to be followed up by active use of the power of direction.

AT

23 May, 1985

CONFIDENTIAL

MR TURNBULL

23 May 1985

DISPOSAL OF WASTE LAND LOCAL GOVERNMENT PLANNING AND LAND ACT, 1980 (FOLLOW-UP TO MINUTE OF 21 MAY 1985)

This Act grants the discretion to the Secretary of State to compile a register of land of a Schedule 16 body, where the land holding is not sufficiently used.

1. Individuals can't apply to have land put on the register, but they can suggest it in writing to the Secretary of State.

   The Act gives power to the Secretary of State to require information to be supplied and gives also discretion to "take steps for the disposal of land" on the register by specifying actions. The Secretary of state has a duty to give notice of 42 days of his intention and, if there is no objection, he can then dispose of the land. If there is an objection from the body concerned, then the Secretary of State can only dispose of the land if he feels the bodies can function without serious detriment to their performance (Sections 93-100, Part X LGPL Act, 1980).

2. No individual is given a right to require the Secretary of State to dispose of any land on the register.

3. There is no time limit under which the Secretary of Sate must act to dispose of the land once he has registered it.

4. No timetable for the Secretary of State is specified at all once he has begun to act under Part X with the exception of the 42-day time period.

Giving individual rights to citizens under items 1 and 2, and by imposing time limits, items 3 and 4 might strengthen DoE's hand and would be popular in some quarters. However, DoE are actively publicising the land register, (computer base at Marsham Street and details through the Estates Gazette). More legislation by private members should not become an excuse for delay in using existing law. The Prime Minister's latest remarks to Patrick Jenkin seem to have sparked more action. Let's encourage full use of existing powers!

Hartley Booth.

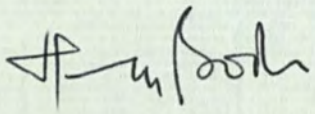
HARTLEY BOOTH

PRIME MINISTER 21 May 1985

SURPLUS LAND IN PUBLIC OWNERSHIP

The Department of the Environment are launching the computerisation of the land register on Thursday of this week.

Patrick Jenkin also proposes to legislate for individuals to apply directly to have land put on the register through a Private Members' Bill. Why bother? Let's use the existing legal powers with force and determination.



HARTLEY BOOTH

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CC NO

NDPM
AT
21/5

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Adam Butler
Minister of State (DP)
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

20 May 1985

Dear Adam.

THE PRIVATISATION PROGRAMME: ROYAL ORDNANCE

Thank you for your letter of 15 May.

July 1986 was acknowledged to be the earliest possible flotation date in the RO Corporate Plan on which we decided to vest. I was disappointed to see, just a few months later, that you believe this target may not now be met.

I fully recognise the size of the task faced by RO management, and that the company's path to the private sector will be difficult. Most of our flotations have presented difficulties of one sort of another. But that indicates the need for additional determination and effort, in both the Department and the Company. I should like to explain why I think it so important that the target date of July 1986 for privatisation of RO plc should not be allowed to slip.

As you know from the E(A) paper, the RO sale will have to fit into the privatisation programme as a whole. It cannot be viewed in isolation, and the constraints on timing are quite severe. Prospectus disclosure requirements make it very difficult to organise Government sales in October/November and February/March because of the Autumn Statement and the Budget. August and mid-December - mid-January are also normally ruled out. And for obvious reasons it will not be possible to mount a major sale in the run-up to the next election. The marketing build up to a large Government share sale typically lasts two months or longer and it is inadvisable to distract investors by mounting one offer whilst another is being marketed. Thus there is usually at least a two-month gap between Government share sales.

For a large scale sale like BGC the gap needs to be even longer. As the BGC sale is our main priority, other sales will have to be organised around it. We are committed to at least four major sales in the period summer 1986 - summer 1987. Their claims create a real risk that if RO is not sold next summer, it will not be sold during this Parliament.

The question therefore is not whether July 1986 is ideal time for the RO sale. Indeed in some ways there is no ideal time, and a sole objective of maximising proceeds is not a sensible one: the market takes its own view of future profitability. The latest profit forecasts will be a factor to take into account with others, in coming later to a decision on issuing a prospectus for next July. But there will be no decision to make if management tasks are not tackled vigorously now.

You will by now have seen that E(A)'s discussion last week emphasised the need for departmental Ministers to maintain their privatisation programmes on schedule. I hope you will understand that RO can be no exception to this, and will ensure that your officials and Company management are making every possible effort to achieve the target date.

I am copying this letter to the Prime Minister and Sir Robert Armstrong. In view of the information it contains on Government sale plans, I shall be very grateful if its further circulation can be kept to a minimum.

Yours ever

John

JOHN MOORE

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PRIME MINISTER

DISPOSAL OF SURPLUS LAND IN PUBLIC OWNERSHIP

E(A) Committee discussed on 15 May further action that can be taken to bring surplus public land back into use. I would like to tell you of my proposals to extend the use of land registers.

To date about 8,000 hectares (20,000 acres) of land have been removed from the registers and either sold or brought into use. Four directions to sell have been made, three of which have resulted in sale of the land and we are negotiating on the fourth. We are now stepping up the pace and will be initiating a further batch of up to 50 directions shortly. We are also computerising the Land Registers and will be making these facilities available to the public.

I think the time is now ripe to encourage potential purchasers and developers to take the initiative. I propose to invite them to identify publicly-owned sites which they regard as unused or underused and to propose to me that I place them on the register and decide whether or not to issue directions for their disposal. I will make it clear that I am prepared to consider any such sites for inclusion on the register whether or not they are smaller than the one acre limit that applies at present.

By inviting potential purchasers and developers to take the initiative in this way, we are likely to attract greater interest in the registers and to bring forward more sites for disposal. The private developer is much better equipped to search outsuch sites than the staff in my Regional Offices who have so far had to do all the leg work on the registers. I anticipate that this will lead to a significant acceleration of disposals.

The registers include land owned by Government Departments and nationalised industries, and the invitation to identify further sites will apply to those land holdings as well as to those

RESTRICTED

of local authorities. I cannot, however, make directions on Crown-owned land.

I will be announcing this invitation in a speech I am making to the Royal Town Planning Institute on 7 June. Although I can use the existing powers in the Local Government Planning and Land Act 1980 for these purposes, there would in my view be value in making express provision for the procedure whereby individuals can initiate statutory action in the ways I have described. It may well be a suitable candidate for a Private Members Bill.

I am copying this letter to Cabinet colleagues.

Ali Dami
for P J
20 May 1985

Approved by the SAS and signed in his absence

CC NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

NMPM
17/5

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 May 1985

Dear Chancellor

NATIONAL BUS COMPANY PENSIONS

You will want to know why I am anxious to meet you on Monday to discuss National Bus Company (NBC) pensions. I understand that you have seen the papers, so I will not spell out all the details.

I must stress that the NBC problem has not arisen on any other privatisation that I know of. Either an undertaking has been privatised as a whole, so that pension scheme and employer go into the private sector together; or it has been possible for staff to leave a preserved entitlement with a large parent body which is not being privatised. Neither alternative applies to NBC; we are privatising, breaking up and leaving no residual body which could take responsibility for existing liabilities. Furthermore, we are changing the whole economic basis of the industry, by deregulating. I do not see how it can be denied that in these circumstances we cannot rely on the successor companies to meet these inherited obligations as employees expect NBC to do; indeed I doubt whether we could persuade the successor companies to take them on. For that reason the option of closing the funds seems the only way of dealing with preserved entitlements.

It is easy to say that if the schemes are properly funded nothing should go wrong. That is no comfort to a pensioner, who will see that whereas at present NBC can and does give support and stand behind them, in future he will depend on a closed fund, without a parent body at all. I think it hardly surprising that we and virtually all members of Parliament have had a deluge of worried letters from present and former NBC staff.

Politically, NBC's campaign has influenced our supporters, and we face at Report stage of the Bill on Tuesday an Alliance amendment, carefully drafted to draw attention to the direct effects of the Bill rather than future risks of economic misfortune. The amendment is particularly dangerous, because

it could imply a guarantee for future service as well as the past, which is no part of my case. I am frankly not sure that we can successfully resist the amendment in the Commons; nor am I sure that in the present climate we could undo the damage in the Lords.

I am especially worried that the Opposition could claim that we adopt a more responsible approach where central government is directly concerned. I understand that a guarantee has been given in respect of closed pension schemes for Industrial Training Boards. Peter Rees' argument that the Government had a direct responsibility hardly meets the point; NBC would reply that it is only Government action which is preventing them from continuing to fulfil the same responsibility themselves. I gather that you think that the Royal Ordnance Factories, where a guarantee was refused, is a precedent. I frankly fail to see how that can be so; the staff were members of the Principal Civil Service Pension Scheme, and are able to leave a preserved entitlement there; a fundamental point in the NBC case is that no such option is open to them. We did give a no-worsening guarantee for ROF staff, and failure to fulfil it has led to compensation being agreed.

I think I must say on Tuesday that the Government will ensure that for past service (not future) the funds will be underwritten. Either we will have the risk taken over by a private insurance company (if a defensible price can be agreed; my officials have been looking into this option, and it may be possible, though the difficulties are obvious), or if we cannot make this succeed, I see no alternative to guaranteeing the funds ourselves.

I am sure that anything less than this will lead to just the sort of public trouble that the privatisation programme should avoid. I am sure we should discuss this on Monday; if not I must ask for a Treasury colleague to speak from the front bench on Commons Report the next day, to defend a case that is Treasury's not mine - as Michael Spicer is helping you on the Finance Bill.

I am sending copies of this to E(A), Willie Whitelaw, John Wakeham and Bertie Denham.

Yours sincerely,

Henry Dorrell (Private Secretary)

for NICHOLAS RIDLEY (Approved by the Secretary of State but signed in his absence)

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ECON Field CCND

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/AB/1/8

15th May 1985

Dear Chancellor,

THE PRIVATISATION PROGRAMME: ROYAL ORDNANCE

I have seen a copy attached of the Chancellor's paper to be discussed at E(A) today (E(A)(85)26). The paper suggests that it is imperative that a flotation of Royal Ordnance plc takes place by next Summer. I think I should record the considerable difficulty we see with such a deadline.

The company was vested on 2nd January 1985. It inherited a Trading Fund and certain R&D establishments and has embarked on a major restructuring programme to turn itself into a successful company, able to compete in world markets. The Corporate Plan produced at the end of last year indicated the Directors' view that a successful flotation could not take place before about July 1986. This followed from the need to have available accounts for a full year's trading as a company. These will not be available until well into 1986 and there would then need to be a lead time for the flotation exercise.

But we are also very concerned about the company's ability to forecast profits with anything like sufficient accuracy to

/ meet ...

The Rt Hon Nigel Lawson MP

CONFIDENTIAL

meet stock market requirements. The company are very conscious of this and the auditors, Coopers and Lybrand, have independently stressed the point to me and to my officials. A lot of management effort is presently being devoted to improving ROs' accounting and forecasting, but it will be early 1986 before they even have in place monthly accounts and some months later before the system's accuracy is proven.

Furthermore, and perhaps more importantly, if the company is to be sold at an acceptable price it has to demonstrate an ability to make profits. There are indications that the seas are going to be somewhat rougher for the company than had been anticipated, and that it may therefore take longer than we had hoped to turn itself into an attractive buy.

Against this background, they had been hoping to delay a flotation until as near the end of 1986 as practicable. If we are to meet a deadline of mid-1986 for flotation, the exercise will be the more difficult and the likely proceeds might well be affected.

I recognise the problem we face over the timing of the British Gas sale but I must enter a strong plea for some flexibility for Royal Ordnance if we are to avoid the political criticism and financial detriment we should face from an unsuccessful sale.

I am copying this to the other members of E(A) and to Sir Robert Armstrong.

Adam Butler
Approved by the Minister
and signed in his absence

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PRIME MINISTER

THE PRIVITISATION PROGRAMME

I have read E(A)(85)26 in which the Chancellor reviews the present state of the privatisation programme. Unfortunately, I am unable to attend the meeting at which the paper will be discussed.

I am writing to draw attention to one aspect which causes me some concern, namely the suggestion (in paragraph 3) that we are now in a position to "firmly endorse" the inclusion of the water industry in the privatisation programme. The present position is reflected in the inclusion of 'Water Authorities' in the list (B) of Major Candidates Not Yet in Current Plans. The note (B6) on the Water Authorities draws attention to the work of an inter-Departmental group which has been set up to study the issues involved and we shall not be in a position to take a discussion on the inclusion of the water industry in the privatisation programme until we have considered the group's report.

From my own knowledge of the Welsh Wter Authority I anticipate that privatisation will not be straightforward. For this and other reasons I submit that we are not yet in a position to "firmly endorse" inclusion of water authorities in the privatisation programme.

I am copying this minute to the Chancellor of the Exchequer, to members of E(A) and Sir Robert Armstrong.

14 May 1985

R N E

P.01538

PRIME MINISTER

The Privatisation Programme

FLAG A. (E(A)(85)26)

BACKGROUND

The Annex to the Chancellor of the Exchequer's paper, E(A)(85)26, reports the position on existing and potential candidates. The paper itself proposes priorities for the remainder of this Parliament. The key points are.

a. The need to guard against slippage and to take early corrective action where needed. BNFL, the electricity supply industry (ESI), BL and National Girobank have already slipped; there is some concern about Royal Ordnance. Some slippages, most notably British Airways, are outside the Government's control; this reinforces the need for constant pressure on foreseeable and controllable developments. (However, provided British Airways can be sold during the current financial year, the current annual realisations target of £2.25 billion should be readily attainable. That figure is now likely to be exceeded substantially in the next two years, as a result of the privatisation of BGC.)

MoD see difficulty about target of mid 1986 Letter enclosed

b. Legislation providing for privatisation of the water industry should be included in the firm plans for this Parliament (although the flotation might not take place until after the next General Election).

Welsh Secretary has entered reservations.

c. Disposals of surplus land, buildings and housing held by Departments should be speeded up, and largely completed by 1987/88; disposals of local authority land still have a long way to go.

d. Planning for the next Parliament should begin now. All Departmental Ministers should review the possibilities over the

next two months; including in particular the prospects for the ESI, British Steel, Post Office, British Rail (BR) and the National Coal Board (NCB). (The paper does not make the next step clear; presumably the Chancellor and the Financial Secretary intend to follow up these reviews bilaterally.)

e. A major reason for privatising monopoly utilities is the stimulus to wider share ownership; this and the other benefits in terms of improved efficiency and service need to be presented positively.

Proposals

2. Ministers are invited:

i. to note the present position and plans;

ii. to monitor developments closely and take action as appropriate;

iii. to review plans for the next Parliament over the next two months;

iv. to note the importance of wider share ownership;

v. to seek opportunities to present the programme positively.

MAIN ISSUES

3. Clearly this meeting is not the forum for resolving detailed issues on individual privatisations. As the list in the Annex to this brief shows, Ministers are due to discuss the future of a number of the major candidates this session. The main purpose of the meeting is to re-emphasise collective commitment to the programme, and to give this concrete expression through agreement to the Chancellor's proposal that each Departmental Minister produce plans for the next Parliament over the next two months.

4. The Financial Secretary has already been asked to consider ways of improving the presentation of the Government's policy, but Ministers may have suggestions or guidance which they wish to offer at this stage.

HANDLING

5. Since the main purpose of the discussion is to encourage Ministers to redouble their efforts in this area, you might begin by stressing the importance of maintaining the momentum of the programme, and the need to examine less obvious or difficult candidates as well as those already identified before inviting the Chancellor of the Exchequer to introduce his paper. Thereafter the Secretaries of State for Trade and Industry, Energy, Transport and the Environment, as the major nationalised industry sponsoring Ministers, should be invited to comment. The Minister of Agriculture, Fisheries and Food, the Secretaries of State for Scotland, Employment and Northern Ireland also have smaller, although useful, candidates.

CONCLUSIONS

6. You will wish the Sub-Committee to reach conclusions on;

i. whether to endorse the present programme;

ii. what, if any, guidance to give on particular privatisations raised during the discussion;

iii. what, if any, guidance to give to the Financial Secretary on his review of presentation;

iv. whether to invite Departmental Ministers to review plans for the next Parliament within the next two months, and, if so, the arrangements for further discussion.

PG

P L GREGSON

14 May 1985

Annex

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Forthcoming Discussions of Privatisation Candidates

Committee	Subject	Timing
E(NI)	British Rail	16 May
E(A)	Details of British Gas Privatisation	June
E(A)	British Leyland	~~June~~ 23 May
1. E(A)	British Steel (broad strategy)	1. June
2. E(NI)	British Steel (individual rationalisations/disposals)	2. July
E(NI)	Harland and Wolff	June
E(NI)	Short Brothers	June
E(DL)	BREL	July/August
E(NI)	Post Office	July/August
E(NI)	National Girobank	July/August
E(NI)	British Shipbuilders	July/August

Targets for the disposal of surplus land and buildings held by Departments will be agreed as part of the 1985 Public Expenditure Survey. Targets for the disposal of surplus nationalised industries' holdings will be built in to the Investment and Financing Review. The Secretary of State for the Environment has a remit from E(DL) to consider further action to encourage local authorities to speed up disposals of their land holdings; the MISC 113 report, due to be discussed on 23 May, discusses measures to expand both Right to Buy sales and disposal of empty houses and tower blocks.

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E(PA) folder

13 May 1985

ROFS

PRIME MINISTER

PRIVATISATION PROGRAMME

The Chancellor's paper sets out the position clearly.

We recommend that you:

a. Confirm the water industry for inclusion in the programme.

b. Stress the need for more rapid progress on privatising the non-cars parts of BL - there has been too much foot-dragging over Leyland Vehicles.

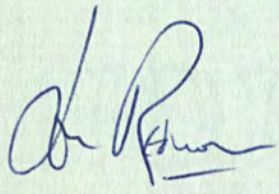
c. Confirm that Shorts and Rolls Royce are firm candidates for 1986/87 or 1987/88.

d. Encourage the option papers on BREL, British Nuclear Fuels, the water authorities, and National Girobank, to come to Ministers quickly.

This is a large and exciting programme, as the Chancellor describes. The markets can stand the amount of money entailed - total investment inflows into the institutions now exceed £17,000 million a year, and it is realistic to

suppose that half of these can and will be invested in the UK equity market if there are enough opportunities. This leaves up to £5,000 million a year of capacity for Government equity sales.

It is also important to stress to colleagues the need to sell more land more rapidly. This will help the house-builders and the housing programme; relieve some of the planning pressure on Green Belt and favoured areas; release cash for cash-strapped nationalised industries; and enable some of the tattiest land in this country to go forward for improvement and development.



JOHN REDWOOD

that violence on and off the field began when big bonuses were given for winning. Would it not be right to examine this aspect in the inquiry? Is it not worth considering imposing a levy on transfer fees, because high transfer fees add to the financial tensions in the game? That measure would be helpful.

Mr. Brittan: I am grateful to my hon. Friend for those further suggestions.

Mr. Denis Howell (Birmingham, Small Heath): It is understandable that most of the questions have been concerned with the great tragedy at Bradford, but it would be unworthy of the House if hon. Members did not spend a little time on the serious law breaking at St. Andrew's on Saturday, which I witnessed. On that occasion, 96 policemen were injured and at least 1,500 people were on the pitch making a deliberate assault on the peace of the realm and the good order of our society — a serious situation which one never thought one would see in British sport. I therefore ask the Home Secretary to consider some matters arising from that incident.

The police were grossly outnumbered by between 600 and 700 law breakers on each side. The police deserve the highest praise for keeping the opposing armies apart and for preventing a general conflagration. We must ensure that two sets of sportsmen are never allowed again to create a situation——

Mr. Brittan: They were not sportsmen.

Mr. Howell: So-called sportsmen. Two separate and repeated baton charges by the police were required at both ends of the ground simultaneously over a period of 35 minutes. That was the extent of the disorder that occurred in Birmingham on Saturday, which I had the misfortune to witness, along with many other decent people, who were horribly sickened by it all.

Will the Home Secretary consider the concerted action by some of these league troublemakers, which was well planned and known in advance? There was excellent co-operation between the Leeds and the West Midlands police forces, but that was not enough to deal with the problem. We must ensure that, in such circumstances, people bent on disorder are not allowed to travel this country to break the law. I hope that the inquiry will take account of that point.

My right hon. Friends and I are concerned about the fact that there is to be only one inquiry. The Home Secretary is wrong to limit the terms of reference to the Bradford and Birmingham occurrences. *[Interruption.]* The terms of reference of the inquiry refer to Bradford City and Birmingham City football grounds, unless the terms have been changed since I received a copy. During the past two months there have been similar incidents on the Notts County, Luton and Chelsea grounds. Will the inquiry take all of those disorders into account, as it should, although they are not within its terms or reference?

The right hon. and learned Gentleman's statement did not refer to the Prime Minister's ministerial committee. I hope that that committee has not been superseded. How does the Home Secretary see the relationship between the two inquiries?

In view of the serious issues of law and order and public safety, how long will it be before Mr. Justice Popplewell reports? This is of the greatest importance if Mr. Justice Popplewell's recommendations, which are bound to be costly, are to be put into effect in time for the beginning of the next football season.

Like the Scarman inquiry, will the Popplewell inquiry have available to it specialist advisers to consider the questions that need to be examined including how advance information and intelligence are obtained, the use to which they are put, how these incidents are exploited and how they can be prevented. Most importantly, will Mr. Justice Popplewell examine the deeper social significance of an occasion when so many hundreds of people go to a game bent on trouble? Will he consider why these difficulties persist in arising in our society?

Will the Government again look at the Chester committee's report, which recommended the creation of a football levy board? This is essential. The Home Secretary has said that the trust provides 75 per cent. of the cost of designation, but that is inadequate in view of the cost of the major structural alterations that will be required.

The right hon. and learned Gentleman referred to perimeter fencing. There is a dilemma between ensuring that those whom one does not want to be on the pitch are kept off and allowing thousands of people to use the pitch in an emergency as the only reasonable point of evacuation. Some of the gates in some perimeter fences do not match the requirements. The right hon. and learned Gentleman probably realises that and will do something about it.

Finally——*[Interruption.]*

Mr. Speaker: Order.

Mr. Howell: These are very important matters of law and order. They are distinct from questions of safety, and they justify our view that there should have been two statements.

Finally, will the Home Secretary convey our concern to the football authorities? Will he ask them to consider whether, where necessary the kick-off for important matches should be in the morning, and whether clubs whose travelling supporters have bad records should have all-ticket away matches? Most importantly, will he ensure that the licences are withdrawn from those proprietors of minibuses and coaches carrying football supporters who are seen—I understand that this happened on Saturday —to stop at supermarkets and pubs to load up with drinks?

Mr. Brittan: The right hon. Gentleman will be aware of the announcement that has been made about the Government's notices of intentions.

I take note of what the right hon. Gentleman said about the Chester committee's recommendations.

The most significant points made by the right hon. Gentleman relates to the events at Birmingham. He was right to draw attention in a very vivid way, in his accurate account of events, to the magnitude and horror of what occurred there.

As for the right hon. Gentleman's comments on the announcement, if he has time to look more closely at my statement he will see that the terms of reference of the inquiry are wider than he perhaps realised. Although the inquiry is invited to consider matters with particular reference to the events at Bradford City and Birmingham, that is not all that it is entitled to do. It is invited to look at the matter very much more broadly.

Mr. Brittan]

The right hon. Gentleman asked about the inquiry having technical assistance. At a later stage in my statement I said:

"I shall arrange for the chairman to be assisted by appropriately qualified assessors . . . and to have available such technical advice and support as he requires."

As for the relationship between this inquiry and the measures agreed between the football authorities and the Government at No. 10 Downing street, I stressed towards the conclusion of my statement that the measures announced were

"additional to those announced on 1 April after the meeting at No.10 Downing street with the football authorities"

and that the programme of measures agreed there must go ahead with renewed urgency.

British Aerospace

4.51 pm

The Minister for Information Technology (Mr. Geoffrey Pattie): With permission, Mr. Speaker, I should like to make a statement about the outcome of the joint offer of shares in British Aerospace by the Government and the company.

Approximately 264,000 applications were received from the general public, excluding institutional priority applications, for a total of approximately 790 million ordinary shares.

Preferential applications were received from shareholders for approximately 23 million shares and from employees for approximately 3 million shares. All such valid applications will be allocated in full.

Valid applications from the general public for up to 20,000 shares will be allocated a minimum of 100 shares and a maximum of 275 shares, depending on the number of shares applied for. No allocation will be made in respect of public applications for more than 20,000 shares. On this basis, allocations will be made to some 260,000 applicants for a total of some 40 million shares.

As announced on 1 May, approximately 80·8 million shares, 55 per cent. of the total offered shares, have been allocated to institutional priority applicants.

It is expected that dealings in renounceable letters of acceptance in respect of the offered shares will commence tomorrow.

Mr. John Smith (Monklands, East): Why is the language of the Minister's statement so contorted and convoluted that it is not possible to discover from it the amount that was raised in the sale? Was not the amount £550 million, and did not 55 per cent. of that go to the preferential institutions, with apparently only 2 per cent. finding its way to the employees, despite the Government's often-professed intention that shares should go to employees?

Are the Government somehow ashamed to reveal the total amount raised in the sale because of the increasing public perception that this is an exercise in selling off the furniture to pay the rent—that the money goes into the maw of the Treasury and is squandered by the Government while the public lose the prospect of future profits from a shareholding?

Have not the Government yet realised that they have finally betrayed the promise which they gave the House of Commons during the passage of the legislation that they would retain 25 per cent. of the shareholding?

The Secretary of State for Trade and Industry (Mr. Norman Tebbit): Not again.

Mr. Smith: The Secretary of State for Trade and Industry shakes his head and says, "Not again." It is not surprising that the House of Commons should remind Ministers about their breaches of promises to the House. We shall continue to remind the Government that they gave a solemn undertaking to retain 25 per cent. of the shareholding to preserve the British national interest and that they have evacuated and abandoned that commitment.

Mr. Pattie: On that last point, the right hon. and learned Gentleman asked a similar question on 1 May. The answer that he was given then, he will not be surprised to know, has not changed since. The undertaking given by the Government in 1981 was to safeguard the national

int[illegible] That has been done by the special share, the details of which are set out clearly in the prospectus, which I invited the right hon. and learned Gentleman to read. He seems to be seizing with some delight on the number of employees who have applied. I should have thought that 3 million shares applied for by the employees was a pretty satisfactory return.

I can tell the right hon. and learned Gentleman that 250,000 people have applied for shares—as well as the 89 per cent. take-up by existing shareholders—which is an indication of the confidence of people in the company. That is what it is all about.

Several hon. Members *rose*——

Mr. Speaker: Order. I remind the House that this is a private Members' day. I shall call all those hon. Members who have been seeking to catch my eye, but I ask them to put their questions as briefly as possible.

Sir Edward Gardner (Fylde): Is my hon. Friend aware that there is considerable anxiety among those of my constituents who are employed at the British Aerospace division at Warton about job prospects and particularly about the future of the proposed European fighter aircraft? Is he able to say at this stage what he anticipates will be the effect of the sale of the Government's residual shareholding on job security at Warton and also upon the international negotiations that are taking place about the future of the European fighter aircraft?

Mr. Pattie: The sale which has been announced today will not adversely affect the job prospects of his constituents, about which he is rightly concerned.

I do not think that the specific outcome of forthcoming negotiations arise from my statement today.

Mr. Dennis Skinner (Bolsover): Will the Minister give the House a guarantee that no shares have been sold to foreign nationals, say, Libyan, Argentine or those of any of the other countries that have been involved in disagreements with British nationals during the course of, say, the past two or three decades?

Mr. Pattie: If the hon. Gentleman is asking me whether the nationals of any countries that he likes to name have bought shares, obviously I cannot give any such guarantee. If they are free to deal on the stock market, they are free to buy shares. The national interest is wholly safeguarded by the special share and also by the references to the Monopolies and Mergers Commission which are built in.

Mr. Timothy Wood (Stevenage): I congratulate my hon. Friend because I, with 9,000 British Aerospace employees, am delighted that the share sale has been such a success and, furthermore, that we have 260,000 shareholders now taking an interest in the company. I believe that that is excellent for the future of British Aerospace.

Mr. Robin Corbett (Birmingham, Erdington): We all owned it before.

Mr. Pattie: I am grateful to my hon. Friend.

Mr. Tony Marlow (Northampton, North): Will my hon. Friend say how many employees have shares and what proportion they represent of the total labour force? Will he also say a little more about the basis of allocations? If someone applies for 2,000, 1,000 or 500 shares, how many will he get?

Mr. Pattie: About 2,500 members of the workf force have applied for the approximately 3 million shares. That figures relates to a total work force of, say, 70,000 in round figures.

My hon. Friend asked me for the share allocation basis. Those applying for between 100 and 200 shares will have 100 shares allocated to them. Those applying for between 300 and 500 will receive 125. Those applying for between 600 and 700 will get 150. Those applying for between 800 and 900 will get 175. Those applying for between 1,000 and 1,900 will get 200. Those applying for between 2,000 and 3,800 will get 225. Those applying for between 4,000 and 9,500 will get 250. Those applying for between 10,000 and 20,000 will get 275. Those applying for more than 20,000 have had their allocations and applications rejected.

Mr. Tony Banks (Newham, North-West): Will the Minister be taking any steps to monitor what happens to the shares after British Aerospace employees have them, to make sure that the Government's original aim is still being maintained? Does he think that many of them will want to make a quick profit, which is what his friends in the City will be doing?

Mr. Pattie: Not if the experience of British Telecom is followed. No doubt the hon. Gentleman would like to see that happen. To the best of our knowledge, 1·7 million individual shareholders have still retained their shareholding in that company.

Mr. A. J. Beith (Berwick-upon-Tweed) *rose*——

Mr. Robin Corbett (Birmingham, Erdington) *rose*——

Mr. Speaker: Order. I do not know whether both hon. Gentlemen were here when I said that I would not call any hon. Member who had not been standing. However, I shall call the hon. Member for Berwick-upon-Tweed (Mr. Beith).

Mr. Beith: As the share allotment was the only new information in the statement, will the Minister accept some congratulation that he so geared the allotment that small shareholders will get shares, and some large shareholders will get none?

Mr. Pattie: That was the Government's deliberate intention, as we wish to encourage wider share ownership.

Mr. Corbett *rose*——

Mr. Speaker: Order. We must move on.

Board and Lodging Allowance

5.1 pm

Mr. Stan Thorne (Preston): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the problems of the young unemployed caused by statutory instrument No. 613, which has been effective since 29 April."

The problems of the young unemployed who rely on lodging allowance have been made acute by this statutory instrument. It is estimated that between 50,000 and 85,000 people nationally will be rendered homeless by this measure. Some young unemployed will be reduced to squatting, to living rough or to moving from place to place. This is yet another serious social problem directly arising from the Government's action in cutting benefits to the needy. The north Lancashire synod of the Methodist Church, for example, has passed an urgent resolution calling on the Government to rescind or modify these new social security measures.

Such measures jeopardise young people's right to vote, as it becomes increasingly difficult for them to register. It adversely affects their right to register with a doctor. Besides the 50,000 to 85,000 who may be affected by this measure, 100,000 people between the ages of 26 and 65 who are unemployed and in receipt of lodging allowance may also be affected and rendered homeless.

When this subject was debated early in April, the Minister replying to the debate said that there was a possibility that he would reappraise the measures contained in statutory instrument No. 613, which has now been issued. I urge you, Mr. Speaker, to permit this debate as a matter of urgency, because many young people will be affected within the next two or three weeks. In my area, young people have four weeks since 29 April, after which they will be ejected from their lodgings and become homeless. Therefore, this is an urgent problem from north to south of the British Isles.

Mr. Speaker: The hon. Member for Preston (Mr. Thorne) asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely,

"the problems of the young unemployed cause by statutory instrument No. 613, which has been effective since 29 April."

As the hon. Member knows, the decision that I have to take is whether this matter should have precedence over the business set down for today or tommorrow. I have listened to what he has said, but I do not consider that the matter that he has raised is appropriate for discussion under Standing Order No. 10 and, therefore, I cannot submit his application to the House.

Civil Liberties

5.3 pm

Mr. Richard Ottaway (Nottingham, North): I beg to move,

That this House strongly endorses the need to protect the essential rights and liberties of the individual citizen, while recognising the vital need to preserve order and stability in our society.

Mr. Speaker: As we have a late start and six Back-Bench Members have asked to take part in the debate, and there may be others, I ask for short speeches in the hope that nobody will be disappointed.

Mr. Ottaway: There is nothing new about the House debating civil liberties, and I do not move the motion in a pioneering sense. Since the days of Magna Carta, which protected Parliament from the King, and the Bill of Rights, which ensured that barons were tried by barons, there have been many advocates of civil liberties and human rights. In the post-war years of the Attlee Government, British support for the European Convention on Human Rights was backed by such eminent Members as Sir Winston Churchill and Lord Stockton from my party, and Ernest Bevin and Lord Layton from the Opposition parties.

In the 1960s, there was much pressure for the right of individual petition to the European Court of Human Rights and, latterly, alliance Members have moved ten-minute Bills in support of incorporation of the European convention into British law. Throughout this period there has been a keen awareness of the need to ensure that legislation recognises the individual's rights and liberties. Accordingly, although the House has not debated the subject for some time, I do not feel that I am trail blazing.

My interest in moving a motion such as this was sparked off by an event that, in many senses, has had a far reaching impact on civil liberties, and has rent the civil liberties movement asunder. I refer to the coal strike, which has had so much impact on my constituency, which forms part of the Nottinghamshire coal field. I have in my constituency Babbington colliery, which is one of the oldest mines in the country. Like all other pits in the Nottinghamshire coal field, it continued to work throughout the strike. The House is aware of the scenes that characterised the dispute, and Babbington colliery was not spared. On two occasions, large numbers of pickets appeared at the front gate, and their behaviour was such that one was led to believe that the object of the exercise was to prevent miners from getting to their place of work.

On the first occasion it is estimated that some 2,000 pickets turned up, split themselves into two groups and then made co-ordinated charges at the police at the gate. At first, there were about 40 policemen, who were rapidly reinforced. In spite of the pickets' efforts, approximately two thirds of the men made it into the pit, largely thanks to the police, who were able to impose control and protect my constituents' right to work. Subsequent discussions with my constituents showed that many of them were most concerned not only about their safety but about that of the police.

On the second occasion, the police, in anticipation, had set up a checkpoint on the M1 about half a mile from the mine. However, the pickets circumvented it by abandoning their cars on the hard shoulder of the motorway and walking across the fields to the pits. Such

Tim - I belive you have seen the text already CST

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From the Minister of State
for Industry and Information Technology

13 May 1985

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim,

BRITISH AEROSPACE

I enclose a copy of the statement Mr Pattie intends making this afternoon on the sale of the Government's shareholding in British Aerospace.

2 I am copying this letter to the Private Secretaries to the Lord President, the Lord Privy Seal, the Government Chief Whip in each House, the Secretary of State for Defence and the Financial Secretary to the Treasury.

Yours sincerely

Tim Abraham

T P ABRAHAM
Private Secretary

JH1CHS

999-5

STATEMENT

With permission, Mr Speaker, I should like to make a statement about the outcome of the joint offer of shares in British Aerospace by the Government and the Company.

Approximately 264,000 applications were received from the general public (excluding institutional priority applications) for a total of approximately 790 million ordinary shares.

Preferential applications were received from shareholders for approximatel 23 million shares and from employees for approximately 3 million shares. All such applications will be allocated in full.

Applications from the general public for up to 20,000 shares will be allocated a minimum of 100 shares and a maximum of 275 shares depending on the number of shares applied for. No allocation will be made in respect of public applications for more than 20,000 shares. On this basis, allocations will be made to some 260,000 applicants.

As announced on 1 May, approximately 80.8 million shares, 55% of the total offered shares, have been allocated to institutional priority applicants.

It is expected that dealings in Renounceable Letters of Acceptance in respect of the offered shares will commence ~~on Tuesday 14 May~~ tomorrow.

999-80

(B ~~Ate~~) Privation.

B/up 14.5

cc NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

NDPM
AT
14/5

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

13 May 1985

Dear Geoffrey

LAKER AND UK/US AVIATION

I have read your minute of 29 April about what our objectives and negotiating strategy should be in relation to the Laker case and UK/US aviation more generally.

The immediate issue you raised is the next round of discussions with the United States about the "Annex 2" arrangements for the regulation of capacity. These discussions in early June are exploratory and informal in character, although I hope that they may enable us to form a better judgement than we can make now as to what new arrangements we can negotiate which might prove acceptable to us.

The replacement of the Capacity Annex should be regarded as a self-contained exercise. The present constraints are irksome to the Americans, but they are justified so long as we do not have at least as good access to the whole of the US market behind their gateways as they do to the whole of the European market behind London. While the balance of opportunities is so much in their favour, it is not surprising that they should want a liberal capacity regime to exploit it to the full: if we can redress that balance (and I have some liberalising ideas in mind which would be to our advantage) it will be interesting to see how long they continue to talk about deregulation and open skies. There has been plenty of evidence in the past - confirmed by their public statements - that their enthusiasm for liberal policies falls away as soon as a relatively weak US airline finds itself up against a strong and powerful competitor such as BA. In the end it may be that they will prefer to settle for a liberalisation of Annex 2 which leaves with both Governments sufficient powers of intervention in the market to ensure that the most powerful airlines are not able to establish a position of such dominance on any particular gateway as to work against the public interest.

I am aware of the view taken by some lawyers that we may have to terminate the Bermuda 2 Agreement in order to be more certain of achieving satisfactory new arrangements to replace Annex 2, but we cannot know whether this will prove correct until we have tested the American position much more fully than we have yet been able to do. Moreover termination would be likely to provoke a major row with the United States and could put at risk our plans for the early privatisation of BA. For both these reasons I am clear that we should continue to explore the scope for a negotiated replacement of the Bermuda 2 capacity arrangements, and I know that our officials are in close touch about that.

So far as tariff liberalisation is concerned we know this too is an important US objective, although here again they have recognised that some limited controls will remain necessary in order to ensure that a powerful airline cannot exploit a monopoly position at the expense either of the traveller who could be forced to pay unreasonably high fares, or of other airlines which might be driven out of business by predatory pricing. As you know we were making good progress towards a more liberal arrangement on these lines last autumn in the context of a package which would also have included US legislation to exclude the possibility of private anti-trust suits in future. The negotiations were suspended when President Reagan called off the Grand Jury investigation into the alleged Laker conspiracy. Our decision to allow BA to settle the current suits represents a major and costly contribution on our part to dealing with the Laker case as a potentially explosive issue in UK/US relations, and one which we believe the Americans should be brought to recognise as being no less important than the step which President Reagan took in relation to the criminal suits.

Once the current cases are dealt with my second priority in the anti-trust area is to make sure we get no future cases. Here there is a recent relevant Supreme Court decision (the Southern Motor Carriers case) which may have enhanced our negotiating position in seeking to argue that international aviation should be excluded from the ambit of the private treble damage suits. Once the Laker suit and the Class Actions are safely out of the way, and we and the US authorities have had time to absorb the implications of the new Supreme Court decision, it may be possible to resume discussion of an anti-trust/tariff liberalisation package in an atmosphere less charged with suspicion and ill will than before.

I am sure you will agree with the approach outlined above. More liberal arrangements on capacity and fares are probably not to our advantage, certainly so long as

our airlines do not enjoy free access to the protected US market and are inhibited from competing with full vigour by the shadow of anti-trust. US airlines already have nearly 70% of the North Atlantic Market. Nor do I think that it will be to our advantage to allow the various strands of negotiation to get tangled up if we can help it. Moreover, since the Americans profess themselves so keen to have more liberal arrangements, I find it hard to understand why you should be so ready to give them what they want without asking for fair trading conditions and the menace of private anti-trust suits to be dealt with at the same time. This is even more surprising after they have extracted $65m from BA and other airlines on what we all agree are bogus grounds.

Our officials are constantly in touch about the whole range of our aviation issues and you and I can always discuss them whenever necessary. But I see no need for a discussion in MISC 112 at present. On the anti-trust and BA privatisation fronts I shall of course continue to keep colleagues fully informed by correspondence and within MISC 112 as and when necessary.

I am copying this letter to the other members of MISC 112 and to Sir Robert Armstrong.

Yours ever

Nicholas

NICHOLAS RIDLEY

Econ Pol: Privatisation A12

REVISE.

STATEMENT

With permission, Mr Speaker, I should like to make a statement about the outcome of the joint offer of shares in British Aerospace by the Government and the Company.

Approximately 264,000 applications were received from the general public (excluding institutional priority applications) for a total of approximately 790 million ordinary shares.

Preferential applications were received from shareholders for approximately 23 million shares and from employees for approximately 3 million shares. All ~~such~~ valid applications will be allocated in full.

Valid Applications from the general public for up to 20,000 shares will be allocated a minimum of 100 shares and a maximum of 275 shares depending on the number of shares applied for. No allocation will be made in respect of public applications for more than 20,000 shares. On this basis, allocations will be made to some 260,000 applicants.

As announced on 1 May, approximately 80.8 million shares, 55% of the total offered shares, have been allocated to institutional priority applicants.

It is expected that dealings in Renounceable Letters of Acceptance in respect of the offered shares will commence tomorrow.

Q. The success of the sale demonstrates the success of the Government's privatisation policy and the strength of British Aerospace.

A. I am delighted that over a quarter of a million people applied for shares in British Aerospace. This demonstrates the Government's success in stimulating interest in share ownership among a wider public, and the public's confidence in the future of British Aerospace.

Q. Why are some applications being rejected altogether?

A. This is necessary to enable all relatively small investors to receive a reasonable allocation of shares. All but 4,000 of those who applied will be allocated some shares. [It is also in the interests of very large investors themselves. If they were to be allocated any shares their cheques would have to be presented. They would then lose more by way of lost interest than they could hope to gain on the small number of shares they would get.]

Q. Why not allocate all shares to the smallest applicants?

A. Because we wanted to treat everybody fairly, and to achieve the widest possible spread of ownership.

Q. Why is the pattern of allocation diferent than for BT?

A. The pattern of allocation has to reflect the pattern of application. We believe the allocation provides an appropriate balance between preference to small investors and the objective of allocating some shares to as many people as possible.

Q. How many employees applied for shares?

A. About 2,500.

Q. The number of employee applications is disappointing. Doesn't this show that there should have been financial incentives for them?

A. I had hoped that more employees would apply. But the Government does not consider it appropriate to offer financial incentives to employees on secondary sales of shares in privatised companies. The minimum application for employees was 50 shares compared with 100 for the general public, and 5 million shares were reserved for preferential allocation to employees.

Q. How many times was the issue over-subscribed?

A. In relation to the total number of offered shares, about 4½ times. [In relation to the number of shares available to the general public after priority applications have been satisfied, about 11 times.]

Q. What has happened about multiple applications?

A. A number of suspected multiple applications have been rejected.

Q. Will suspected multiple applicants be prosecuted?

A. If cases of suspected fraudulent multiple applications come to light, consideration will be given to referring them to the Director of Public Prosecutions.

Q. Will British Aerospace be treated fairly by the Government in relation to defence procurement and export support now that the Government no longer has any interest in it?

A. The Government will continue to treat British Aerospace on the same basis as it treats other companies. There will be no change in the Government's dealings with British Aerospace as a result of the sale of its shareholding in the Company.

Q. <u>The sale will do nothing to increase the Company's efficiency and competitiveness</u>.

A. The Government believes that the normal pressures of the commercial market are the most effective spur to greater efficiency and competitiveness. British Aerospace has operated profitably and competed successfully in international markets during the four years it has been in the private sector. The retention of a Government shareholding in these circumstances would serve no purpose. The restoration of the company to full private ownership can only give a further spur to its efficiency and competitiveness.

Q. Does not the scale of over-subscription indicate that the price was too low?

A. No. It indicates the scale of interest in the Company's shares. One would expect an over-subscription if the price is right. If it had been too high, the offer would have been under-subscribed.

Q. The price was deliberately manipulated downwards by the City shortly before the offer. Should the offer price not have taken account of this?

A. I am satisfied that the price was the right one in the light of the market price in the days before the offer. At the time there was a good deal of comment that the 5% discount was tight.

Q. Why was so much of the offer placed firm with institutions? Doesn't the over-subscription show that this was unnecessary?

A. The offer was a very large one, and I believe the firm placing mechanism was necessary to ensure its success. The placing demonstrated institutional confidence in the offer, which was a factor encouraging retail demand.

Q. Couldn't the scale of demand have been predicted?

A. We were confident that there would be substantial public interest, but the size of demand could not be predicted with any accuracy. Much depended on public and press reaction to the terms of the offer, and on market developments during the offer period.

Q. Was the "good news" immediately before and during the offer (eg 146s for China; SKYNET) deliberately timed to influence the offer?

A. No. The announcements were made in the ordinary course of British Aerospace's business. Negotiations on [146s for China] [SKYNET] had been proceeding for some time and their conclusion recently was entirely coincidental.

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DETAILED BASIS OF ALLOCATION

Number of Shares Applied for (inclusive)	Number of Shares Allocated
100 to 200	100
300 to 500	125
600 to 700	150
800 to 900	175
1,000 to 1,900	200
2,000 to 3,800	225
4,000 to 9,500	250
10,000 to 20,000	275

The basis of allocation for British Telecom was as follows:

	Allocation
200 and 400 shares	In full
800 shares	500 shares
1,200 shares	600 shares
1,600 - 100,000 shares	800 shares

LEVEL OF OVER-SUBSCRIPTION

1.	In relation to the total number of offered shares (146.8 million).	About 4½ times
2.	In relation to the total number of offered shares after preferential applications from shareholders have been satisfied (123.7 million).	About 5½ times
3.	In relation to the shares available after 55% of the offer had been placed firm with priority applicants (66.1 million)	About 11 times
4.	In relation to the shares available to the general public after 55% of the offer had been placed firm and after preferential applications from shareholders and employees have been satisfied (40 million).	About 19 times

In the British Telecom offer, the over-subscription in relation to the total number of shares offered in the UK was about 4 times. In relation to the shares available to the UK public after 55% had been placed firm with priority applicants it was about 10 times.

RESTRICTED

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JF8007

PS/Secretary of State for Trade and Industry

10 May 1985

Tim Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

N
1175

Dear Tim,

BRITISH AEROSPACE SALE

We spoke yesterday evening concerning the wish of Ministers in this Department to make a Parliamentary Statement on Monday, 13 May concerning the outcome of the joint offer of shares in British Aerospace by the Government and the Company.

2 The closing time for applications was reached at 10.00am this morning, and it is too early to give any precise indication of the extent of subscription of the shares. Over the weekend, Ministers and the Company will determine the basis of allocation of the shares which will be announced on Monday. I therefore attach the draft of a statement with, I fear, the key pieces of information as yet incomplete. But I know you will understand that we cannot complete the text until Monday.

3 I should be grateful if you would seek the Prime Minister's agreement that a statement on these lines should be made by Mr Pattie on Monday, 13 May. I am copying this letter to the Private Secretaries to the Lord President of the Council, Lord Privy Seal, Chief Whip and Financial Secretary to the Treasury.

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Encl

991-1

DRAFT PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement about the outcome of the joint offer of shares in British Aerospace by the Government and the Company.

* applications were received for a total of * shares, representing an [over-] subscription of * times [in respect of the shares available after allocations to institutional priority applicants].

* preferential applications were received from existing shareholders for * shares. All these applications have been accepted in full.

* preferential applications were received from employees (* per cent of those eligible) for * shares. [Basis of allocation to employees.]

* applications [including * applications not accepted in full under the preferential arrangements for employees] were received from the general public for * shares. All such applications have been allocated the first [100] shares applied for, with the balance of each application being accepted as to approximately * per cent in respect of the next [400] shares and * per cent as to the remainder.

The remaining shares have been allocated to institutional priority applicants as announced on 1 May.

It is expected that dealings in the offered shares will commence on 14 May 1985.

PRIME MINISTER

RESULTS OF BRITISH AEROSPACE SHARES
APPLICATIONS AND ALLOCATIONS

No of shares applied for (figures inclusive)	No of shares allocated
100-200	100
300-500	125
600-700	150
800-900	175
1000-1900	200
2000-3800	225
4000-9500	250
10,000-20,000	275
more than 20,000	None

There were approximately 265,000 applications for just less than 800 million shares.

The total available number of shares was 146 million of which about 80 million were placed firm with institutions leaving some 66 million available for the public, employees and existing shareholders. So there was an over-subscription in these terms of some 12½ times. This will be announced to the stock exchange tomorrow at 9 am, and to Parliament in a Statement at 3.30.

MT

S. Cappell.

Duty Clerk
12 May 1985

4.56

CONFIDENTIAL

B/F with E(A) papers

Prime Minister ①
Content? No need to read the individual underlying annexes at this stage.
AT 8/5

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

PRIME MINISTER

PRIVATISATION PROGRAMME

You asked me to prepare a paper for E(A) setting out the present state of the privatisation programme. With John Moore's help, I have now completed my review of the programme. The attached paper sets out the present position on existing candidates and proposes some priorities for the remainder of this Parliament. It incorporates some useful suggestions made by the Policy Unit.

2. Although the programme is moving along reasonably well, it is clear that continued pressure is needed if our plans for this Parliament are to be completed successfully. I am sure it would be helpful if you emphasised at E(A) the importance you attach to the programme being maintained and developed. We also need to start thinking about our intentions for the next Parliament and I suggest that colleagues should review their responsibilities over the next two months with the aim of identifying possible candidates.

3. I delayed completing the paper until we had taken our decisions on gas. I understand Peter Walker currently plans to make his announcement today. If you are content with the paper, it can then be circulated immediately. I gather that a discussion has been provisionally arranged for 15 May.

Told Treasury PM content paper should be circulated
AT 8/5

4. I am sending a copy of this minute to Sir Robert Armstrong.

N.L.

N.L.
7 May 1985

E(A)(85)26
8 May 1985

COPY NO

CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON ECONOMIC AFFAIRS

THE PRIVATISATION PROGRAMME

Memorandum by the Chancellor of the Exchequer

This paper reviews the present state of the privatisation programme. Since our last discussion at the beginning of 1984 (E(A)(84)1st Meeting), we have made good progress. Enterprise Oil, Jaguar, Sealink, British Telecom, and a number of other enterprises have all been successfully sold. In total around 400,000 jobs have been transferred to the private sector since 1979. But despite this progress, and recent developments on water, gas and airports, there is still a long way to go. This paper reports the present position on existing candidates and proposes some priorities for the remainder of this Parliament.

The present programme

2. The present state of the privatisation programme is set out in the attached report which the Financial Secretary has compiled. Clearly, a great deal of activity is going on but we know from experience how important it is for Ministers to monitor developments and press for action. Unless slippage is detected early on and dealt with firmly, opportunities can be lost for ever. Compared with our expectations last year, progress has not been as rapid as we then hoped on British Nuclear Fuels Ltd, Electricity, BL, and National Girobank. Additionally, although events outside our

control have caused the British Airways sale to be postponed, it is vital to complete it as soon as possible if our future programme including the published assets sale target for 1985-86 is not to be jeopardised. Also, the state of the queue makes it imperative that Royal Ordnance is ready for privatisation by Summer 1986.

3. The recent decisions in principle to privatise the British Gas Corporation and the British Airports Authority are major developments. An important additional new possibility since we last reviewed the programme is the prospective privatisation of all or part of the water industry, and I welcome the Minister for Housing and Construction's initiative in issuing a discussion note. Water has not hitherto been confirmed as a privatisation candidate. Its inclusion in the programme is a welcome development which I consider we should now firmly endorse.

4. Prospects for the next three years (including water) are set out in the attached chart. Market capacity is more than adequate to absorb the planned programme and our offers for sale continue to be well-received by financial institutions and the general public. It is however becoming clear that time is already beginning to run out if all the privatisation candidates listed in Annex A of the progress report are to be completed successfully in this Parliament. I urge colleagues to do all they can to keep the existing programme on track. If specific further work is needed in order to achieve our objectives, it should be commissioned as quickly as possible.

5. It is not just privatisation possibilities in Departments and nationalised industries that need to be pursued. Other areas where market forces do not fully operate must also be scrutinised. We must also speed up sales of surplus land, buildings, and empty housing. E(DL)(84)2nd Meeting agreed that all Departments should dispose of almost all of their present UK holdings by the end of 1987-88. Disposal targets will be agreed between the Treasury and Departments starting in the 1985 Survey and will be reflected in the Estimates from 1986-87. Local authorities and nationalised

industries must also be pressed to sell their surplus land and housing. This year's Investment and Financing Review will specifically review nationalised industries' intentions and build demanding targets into industries' future finance plans. As far as local authorities are concerned, the Secretary of State for the Environment is considering the use of further directions. There are some 64,000 acres of unused or underused local authority land (about 7000 sites) on DOE's land registers for England. It is clear both here and elsewhere that there is a long way to go.

Future Plans

6. Some Departments have been able to identify candidates for privatisation more easily than others but it is important that all possibilities are properly investigated. The lead time for major sales is such that it is not too early to start making plans for the next Parliament. We must start to consider our future intentions towards industries such as the Electricity Supply Industry, British Steel Corporation, the Post Office, British Rail, and the National Coal Board. I am sure that it would be helpful if all Departmental Ministers were asked to review their responsibilities over the next two months and to identify candidates for the future. At this stage, we should clearly be as radical and as far-sighted as possible.

Objectives of the programme

7. Our privatisation programme has always served a number of objectives:

(i) it leads to greater business efficiency whether through competition or in other ways and this is demonstrated by the subsequent achievements of the companies which we have already sold;

(ii) it cuts back the size of the public sector;

(iii) it provides substantial financial receipts;

(iv) it allows employees to take a direct stake in the companies in which they work and thus leads to major changes of attitudes;

(v) and, importantly, it provides a major stimulus to wider share ownership. Through privatisation to date, notably the sale of British Telecom, we have probably doubled the number of shareholders in the United Kingdom. If this process can be continued, the economic and political significance will be profound. The utilities now being prepared for privatisation are well-suited to spreading wider share ownership further and, during the remainder of this Parliament, we must seek maximum advantage from this and from our separate policy of council house sales.

8. The presentation of our privatisation policy has been highly successful over the last 18 months and I am sure that it is helpful if we all continue to emphasise both the policy and its achievements. Although it remains important to set out the benefits of competition as one way of boosting efficiency through the introduction of market forces, we must also now explain the importance of extending the benefits of privatisation to natural monopolies such as gas, water and international airports. We need not be apologetic about this development. Tough, clear, independent regulation of these monopolies will be of direct benefit to future customers. The injection of private sector attitudes into present public utilities should transform efficiency and service. I have asked the Financial Secretary to consider how best to present these arguments.

Conclusion

9. I invite colleagues:

(i) to note the position on individual privatisation candidates and the future programme planned for this Parliament;

(ii) to monitor developments closely to press for action and commission further work where this is appropriate, and to keep the existing programme on track;

(iii) to note the need to start making plans for the next Parliament and to agree that all Departmental Ministers should review their responsibilities over the next two months with the aim of identifying possible candidates;

(iv) to note the increased importance that wider share ownership has as one of the major privatisation objectives;

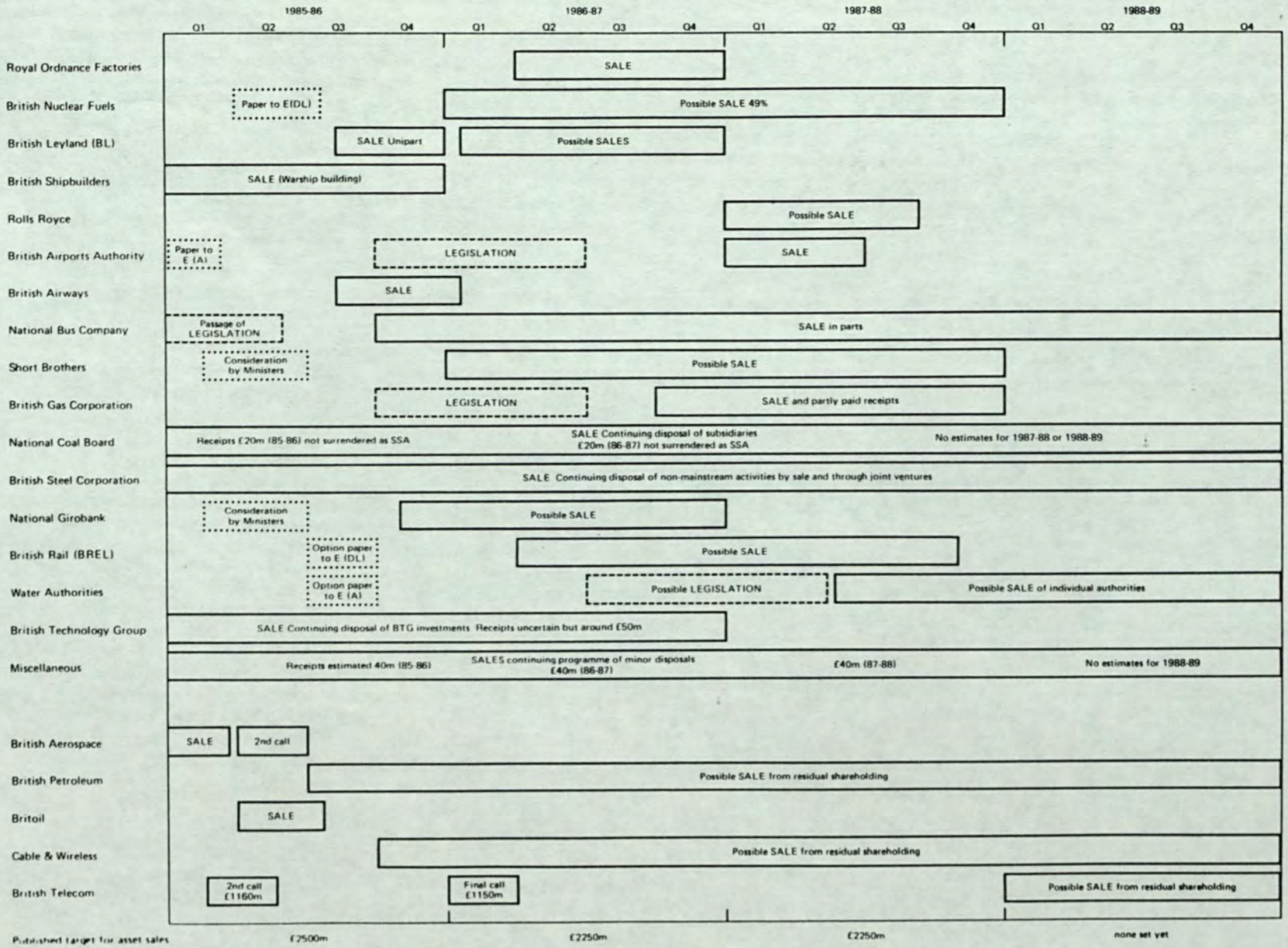
(v) to take every opportunity to present the positive achievements that we are making in this area.

NL

HM TREASURY
8 MAY 1985

CONFIDENTIAL

PRIVATISATION PROGRAMME TO 1988–89



Note
This table shows the best current estimates but in some cases the details are uncertain.
Trustee Savings Bank sale excluded. It is not part of the privatisation programme, but is expected late 1985-86.

The information should be used with caution

PRIVATISATION PROGRAMME

PROGRESS REPORT
MAY 1985

A. MAJOR DISPOSALS ASSUMED IN CURRENT PLANS

B. MAJOR CANDIDATES NOT YET IN CURRENT PLANS

C. MISCELLANEOUS MINOR DISPOSALS

D. RESIDUAL GOVERNMENT SHAREHOLDINGS

A. MAJOR DISPOSALS ASSUMED IN CURRENT PLANS

1. Royal Ordnance
2. British Nuclear Fuels
3. BL
4. British Shipbuilders
5. Rolls Royce
6. British Airports Authority
7. British Airways
8. National Bus Company
9. Short Brothers
10. British Gas Corporation

A1. ROYAL ORDNANCE PLC

A. Policy Decisions and legislative requirements

Powers provided in Ordnance Factories and Military Services Act 1984. No firm decisions yet taken on form of sale. Ministers have indicated in public that preferred route is flotation as a whole.

B. Present position and next steps

On 2 January 1985, the Royal Ordnance Factories were incorporated into a 100 per cent Government-owned Companies Act Company - Royal Ordnance plc. The new company is now adapting to operations in a fully commercial environment and preparing for privatisation. Timing will be dependent on the route chosen, and the financial and commercial well-being of RO plc.

C. Timing and likely proceeds

July 1986 target; from £200-300 million (full sale), depending on timing and company prospects.

A2. BRITISH NUCLEAR FUELS LTD

A. Policy decisions and legislative requirements

Decisions on whether and how to proceed to be taken after the June court case on Sellafield discharges. Sale of less than 50 per cent of shares would not require legislation.

B. Present position and next steps

There is no immediate prospect of a successful share sale. However work by officials indicates that, in better circumstances, a flotation should produce worthwhile net receipts. Further studies into an appropriate regulatory framework and other issues will be carried out in coming months with a view to E(DL) consideration of a paper by the Secretary of State for Energy in the third quarter of 1985.

C. Timing and likely proceeds

Possible this Parliament; after costs of capital reconstruction, receipts from sale of up to 50 per cent of shares could realise upwards of £200m.

A3a. BL

(For Unipart and Land-Rover-Leyland, see below)

A. **Policy decisions and legislative requirements**

No legislation needed for any BL disposals. Ministers agreed in August 1982 that "visible progress" towards privatisation was required within 2 years, defined as sale or advanced preparations for sale of at least 2 of the 5 BL groups. Jaguar sale completed in August 1984. Decisions on Austin Rover are now linked with the 1985 Corporate Plan.

B. **Present position and next steps**

For Austin Rover the projected results in the 1985 Corporate Plan do not offer the prospect of privatisation within the next five years. Very recently, the BL Board has proposed the signing of a Memorandum of Understanding with Honda for the joint design, development and production of a new car and for the manufacture of Honda cars in the UK using spare Austin Rover capacity. An urgent study is underway (with Merchant Bank and other technical advice) to assess the prospects of further collaboration with Honda, and to identify radical options for, and the consequences of, reducing Austin Rover's capital expenditure.

C. **Timing and likely proceeds**

Uncertain.

A3b. BL - UNIPART

A. Policy Decisions

E(A) agreed in June 1984 to acquisition of Edmunds Walker (EW) to strengthen the company prior to privatisation. Ministers agreed in December 1984 to acquisition of Motorists Discount Centre (MDC) chain provided BL Board accepted a commitment to privatise Unipart by end-June 1985. This was refused, so MDC acquisition did not take place, and disposal by mid-1985 will not now be possible.

B. Present position and next steps

The BL Board have accepted end-1985 as a target date subject to qualifications. DTI Ministers take the view that this is now a firm commitment. Merchant bank advisers to DTI on Unipart disposal have been appointed. Definite proposals on timing, method of sale, and possible retention by BL of minority stake expected soon. Questions relating to Unipart's contract to supply Austin Rover have been resolved in principle, but the legal agreement is still being drafted.

C. Timing and likely proceeds

End-1985; £100 million maximum.

A3c. BL - LAND ROVER - LEYLAND VEHICLES

A. Policy decisions

Ahead of and subject to decisions on Leyland Trucks, E(A) agreed provisional dates of 1984-85 and early 1985-86 for the privatisation of Leyland Vehicles and Land Rover. Subsequently, E(A) asked for the separation of Leyland Bus from Leyland Trucks with a view to privatisation at the earliest possible date and the Prime Minister commissioned a further study of the steps needed to privatise Land Rover. Study of these options has been delayed and is now incorporated in 1985 Corporate Plan, decisions on which have been deferred pending decisions on scope for possible rationalisation of UK commercial vehicle market.

B. Present position and next steps

The 1985 Corporate Plan sets out several options for the privatisation of Land Rover and Leyland Vehicles but concludes the the Board's preferred course is to keep Land Rover-Leyland Vehicles together for privatisation, if plan results are achieved, towards the end of the decade. Though consideration of the Land Rover and Leyland Vehicles options has been deferred pending the outcome of discussions on the rationalisation of the UK commecial vehicle industry, DTI will be asking its merchant bank advisers (now appointed) to identify and work up possible alternative bids for some of the LRL businesses.

C. Timing and likely proceeds

Uncertain.

A4. BRITISH SHIPBUILDERS: WARSHIPBUILDING YARDS/SHIP REPAIR YARDS

A. Policy decisions and legislative requirements

Powers provided in 1983 British Shipbuilders Act. Decision to privatise all 5 warship yards plus 2 mixed yards announced in Parliament on 25 July 1984.

B. Present position and next steps

Consent has been given for two warship yards (Yarrow and Brooke Marine) to be sold. Others are on the market and progress is continuing on identifying potential purchasers and assessing bids received. The remaining yards will be put on the market in the first half of 1985-86. All ship repair yards already either sold or near sale.

C. Timing and likely proceeds

Completion likely by end 1985-86; net proceeds assumed as c£75 million.

A5. ROLLS ROYCE

A. **Policy decisions and legislation requirements**

Manifesto commitment to privatise this Parliament. No legislation needed.

B. **Present position and next steps**

Chairman has been set objective of brining the company to a state in which the privatisation commitment can be met by 1988 at the latest. Death of Sir Williams Duncan has delayed progress, but a new chairman, Sir Francis Tombs is now in post.

C. **Timing and likely proceeds**

Sale possible in early 1987-88; receipts tentatively estimated by Treasury officials at £400-£600 million.

A6. BRITISH AIRPORTS AUTHORITY

A. Policy decisions and legislation requirements

E(A) decided on 3 April that BAA should be sold as a whole but with each separate airport as a subsidiary company. Primary legislation will be required.

B. Present position and next steps

Decisions will be announced in a White Paper on Airports Policy planned for May. Legislation is planned for the 1985-86 Session.

C. Timing and likely proceeds

Subject to legislation, sale probably in Spring 1987; receipts uncertain but may be around £500m.

A7. BRITISH AIRWAYS

A. Policy decisions and legislative requirements

Powers provided in Civil Aviation Act 1980. Final decisions on capital restructuring still needed, also on timing and mechanics of sale.

B. Present position and next steps

Preparations aimed at privatisation in February 1985 had to be postponed because of developments in litigation in the USA, arising from the failure of Laker Airways in which BA, B/Cal and some foreign airlines are defendants. BA is leading efforts to settle these actions out of court.

C. Timing and likely proceeds

Target: as soon as practicable during 1985-86; gross proceeds may be around £1 billion; net proceeds depend on timing, terms of settlement of litigation, and possible need for BA to retain some of the proceeds.

A8. NATIONAL BUS COMPANY

A. Policy decisions and legislative requirements

Enabling legislation contained in the Transport Bill finished Committee stage on 7 May. Formal decisions on the scale of restructuring of NBC operations to be taken after legislation is passed. Discussions have opened with the Board.

B. Present position and next steps

A competition for professional advisers to the Government is in progress ; NBC have already appointed Barclays Merchant Bank as their advisers. The Transport Bill will give NBC a duty to prepare a programme for disposing of its operations and to implement it within 3 years. NBC's objective in drawing up the programme will be to promote sustained and fair competition both between its own subsidiaries and between those and other bus operators. It must also have regard to practicality and the likely proceeds from sales and to encouraging employee participation. The Secretary of State for Transport has asked the Chairman to report on the steps needed to prepare NBC's subsidiaries to compete fairly on deregulation of the bus industry (which under the Bill will be complete by 1 October 1986) and on the options for privatisation. Although sale of the NBC as a whole has been ruled out, it is not yet clear how many individual privatised bus companies will be needed to secure a competitive industry within the timescale laid down. The choice will range between selling individual operating companies (there are some 40 at present but these might be further split), and putting together a much smaller number of geographically dispersed groupings.

C. Timing and likely proceeds

Total disposal likely to take about three years; precise timing and proceeds from individual sales from 1986 onwards will depend on market conditions. Initial proceeds will be directed by NBC towards repayment of NLF debt. The NBC holding company will be wound up at the end of the sale process.

A9. SHORT BROTHERS LTD

A. Policy decisions and legislative requirements

Northern Ireland Ministers announced in December 1984 that Shorts was a candidate for privatisation. No legislation needed. Decisions on feasibility and options still to be taken.

B. Present position and next steps

Merchant bank advisers have been appointed to report on feasibility, timing and method of sale for consideration by Ministers alongside the 1984 corporate plan.

C. Timing and likely proceeds

Probably not before 1986-87. No estimate has been made of the likely receipts but it is considered that the cost of, for example, restructuring the balance sheet could eliminate most of the net receipts to the Exchequer.

A10. BRITISH GAS CORPORATION

A. Policy decisions and legislative requirements

Policy decision in favour of privatisation taken by Cabinet on 2 May. Announcement by Secretary of State on May 8. Necessary legislation in 1985-86 Session with the intention of Royal Assent by Summer 1986.

B. Present position and next steps

The Department of Energy is preparing a Bill and recruiting City advisers. E(A) will be discussing aspects of the privatisation in the near future.

C. Timing and likely proceeds

Sale is planned in the second half of 1986 on a partly paid basis.

B. MAJOR CANDIDATES NOT YET IN CURRENT PLANS

1. Electricity Supply Industry (England, Wales and Scotland)
2. National Coal Board
3. British Steel Corporation
4. Post Office/National Girobank
5. British Rail
6. Water Authorities

B1. ELECTRICITY (ENGLAND, WALES AND SCOTLAND)

A. Policy decisions and legislative requirements

No decision in principle, but Manifesto commitment to "seek means of increasing competition, and attracting private capital into, the gas and electricity industries". E(84)2nd Meeting invited the Secretaries of State for Energy and for Scotland to bring forward proposals on privatisation as soon as possible. Primary legislation necessary.

B. Present position and next steps

Evaluation of the options for privatisating and restructuring the electricity supply industry had to give way to higher priorities and, in particular, to the pressures of the coal strike.

C. Timing and likely proceeds

Uncertain; too early to forecast, but asset value is substantial.

B2. NATIONAL COAL BOARD

A. Policy decisions and legislative requirements

E(DL) agreed in March 1982 "to transfer to the private sector as much of the NCB's activities as possible". Disposals of non-mining subsidiaries have been delayed by the coal strike (see section C4). Privatisation of mining activities requires primary legislation.

B. Present position and next steps

Energy Ministers have told Parliament (eg 11 March 1985) that there are "no plans for privatisation of the coal industry", but the disposal of non-mining assets has not been precluded publicly.

B3. BRITISH STEEL CORPORATION

A. Policy decisions and legislative requirements

Manifesto commitment to return 'substantial parts' to the private sector. Major question remains whether core business operating on five major (underutilised) sites can attain and sustain viability with present capacity. Ministerial decisions required for joint venture proposals in engineering steels covering 10 per cent of BSC output by tonnage.

B. Present position and next steps

Engineering steels joint venture proposals currently under consideration by Treasury Ministers. Alternative is for BSC to rationalise engineering steels operation themselves. Disposal of peripheral activities continues (see Section C.1). Little progress has so far been made in investigating the possibility of creating separate Companies Act companies in the main business sector (strip and general steels) as a means of assisting restructuring/privatisation. These questions depend on strategic decisions which will need to be taken as soon as possible.

C. Timing and likely proceeds

Peripheral disposals, and possible further joint ventures remain feasible for this Parliament; no decisions yet on mainstream business; no receipts assumed in plans.

B4. POST OFFICE AND NATIONAL GIROBANK

A. Policy decisions and legislative requirements

No decisions have been taken on the nature and extent of any privatisation of Post Office mails and counters businesses. It was agreed in 1980 that Girobank, should be considered as a candidate for privatisation.

B. Present position and next steps

DTI are currently considering detailed technical problems on Girobank, particularly on relations with the Post Office after privatisation, and the Secretary of State for Trade and Industry will shortly put forward detailed possibilities. Officials will be reviewing this Summer the prospects for introducing private capital into the Post Office and will be reporting to Ministers in the Autumn.

C. Timing and likely proceeds

Privatisation of Girobank may just be achievable in 1985-86 though 1986-87 is more likely; receipts for total disposal estimated at £40-£100 million. Primary legislation not essential.

B5. BRITISH RAIL

Attention has hitherto been focussed on sale of subsidiaries eg Sealink, BR Hotels, BR Engineering Ltd (BREL) etc (see Section C.3) and on the franchising of services such as catering. Proposals for private operation of particular services (eg Victoria-Gatwich) have fallen through.

B6. WATER AUTHORITIES

A. Present position

DOE Ministers announced on 7 February that the Government would be examining the possibility of a measure of privatisation in the water industry. A discussion paper setting out options for privatisation was issued on 1 April. Replies have been requested within two months and an inter-Departmental group is meanwhile studing the issues involved. The higher priority now accorded to water privatisation arises in part from increased interest within the industry itself following the Government's decision last Autumn to raise the industry's rate of return, and in part from a reassessment of the questions surrounding the privatisation of a monopoly utility.

B. Timing and likely proceeds

Primary legislation would be required. Assuming that a Bill can be introduced early in the 1986-87 Session, the first disposals might be possible before the end of 1987. Proceeds will depend on tariff levels at time of privatisation and future regulatory arrangements but authorities as a whole might be worth up to £5 billion.

C. MISCELLANEOUS MINOR DISPOSALS

1. British Steel Corporation Subsidiaries
2. British Technology Group Holdings
3. British Rail Subsidiaries
4. National Coal Board Subsidiaries
5. Civil Aviation Authority - Scottish Airports
6. Scottish Transport Group
7. Government Pipeline and Storage System
8. Covent Garden Market Authority
9. Forestry Commission
10. Crown Agents
11. Crown Suppliers
12. National Seed Development Organisation
13. Professional and Executive Register (PER)

C1. British Steel Corporation subsidiaries

Priority has been given to disposal of activities which overlap with the private sector steel industry and to non-iron and steel interests. Recent disposals include RGC (Offshore) Ltd (oil goods fabrication) and Stanton and Stavely Ltd (pipemaking). BSC's 1984 accounts report 13 sets of negotiations involving disposals equivalent to more than £75 million of BSC's assets. Receipts are not surrendered to central government.

BSC have either disposed of or are negotiating the disposal of all but two of their operational overseas subsidiaries. The remaining two are lossmaking plants whose closure would contravene the stipulations of host governments.

C2. British Technology Group holdings

Decisions to dispose of all holdings taken in September 1983. Following sale of Inmos in September 1984, BTG's remaining holdings in 48 companies are small (total book value of £35 million). Programme of disposals continuing on course for completion by end 1986-87.

C3. British Rail subsidiaries

Transport Act 1981 provides powers for disposals. The BR Chairman's review of options for the future of British Rail Engineering Ltd (BREL), including, possibly, privatisation, has been delayed and is now expected before the summer recess. The review will be followed by proposals to E(DL) from the Secretary of State for Transport. The issues include the financial separation of BREL from BR, which is its principal customer; the further reduction of over-capacity; whether there is a core business; and whether individual sections of BREL might be sold separately. Timing of sales, and likely proceeds will depend on the option selected. Receipts will not accrue to central government.

C4. National Coal Board subsidiaries

Disposal of non-mining subsidiaries underway. Sales of Associated Heating Services plc and J H Sankey (Builders Merchants) completed. Further possibilities include German Creek, National Fuel Distributors, Southern Depot, Horizon Exploration, Stavely Chemicals, National Smokeless Fuels and Environmental and Mechanical Services and land holdings. Estimated receipts of at least £20 million in 1985-86 and 1986-87 provide useful offsetting savings to NCB's heavy external financing needs.

C5. Civil Aviation Authority - Scottish Airports

Decision to privatise announced in March 1983. CAA advertised its intention to sell last autumn, but no acceptable bids were forthcoming. It now seems likely that the airports will need to remain in the public sector. Possibility of management by private sector organisations being examined.

C.6 Scottish Transport Group

The White Paper on bus policy and deregulation also covered Scottish interests, but decisions on privatisation of Scottish Bus Group deferred until results of privatisation of NBC can be assessed-effectively until 1987-88. Legislation will be needed to dispose of a major part of STG, but not for disposal of subsidiaries. The Secretary of State for Scotland has directed STG to sell MacBrayne Haulage Ltd; sale to be completed by April 1985; receipts (c£1m) will not be surrendered to central government.

C7. Government Pipeline and Storage System

The Secretaries of State for Defence and Energy consider that the pipeline should not be privatised. The Minister of State for Energy has announced that the system will be managed by the successor agency to BNOC. Future of GPSS to be considered further.

C8. Covent Garden Market Authority

Ministers have decided that privatisation of CGMA as a whole is not feasible at present. Complex and controversial legislation would be needed. Decision taken to sell Market Towers (CGMA owned office building) but attempts to sell it at an acceptable price have not so far succeeded. (The District Valuer valued Market Towers at £25m in 1982, but the only offer received has been a very tentative one for about £15m.) State of market is reviewed periodically; last review in August/September 1984 and a further review is planned later this year.

C9. Forestry Commission

Ministers have agreed to a programme of sales of land and plantations, which continues. Latest forecasts agreed during the 1984 Public Expenditure Survey are for receipts of £12 million in 1985-86 and £10 million in the three subsequent years.

C10. Crown Agents

OD decided in February 1984 broadly to endorse the proposals of the Board of Crown Agents for their reorganisation with a view to privatising parts, and probably the whole, in due course. ODA's bid for legislation in 1985-86 to enable Crown Agents to be privatised, was unsuccessful. The possibility of privatisation is thereby deferred until 1988. In 1985-86 there will be a short Bill to enable continued waivers of interest on the commencing capital debt. A decision on whether to take overseas pensions administration back into ODA is expected shortly. Likely receipts around £7.5 million (less if pensions work is reabsorbed into ODA).

11. Crown Suppliers

Ministers have agreed to the Secretary of State for the Environment's proposal that a study should be undertaken by officials to consider whether it would be in the public interest to transfer to the private sector some or all of the activities at present undertaken by the Crown Suppliers. The study will also consider the option of closure.

C12. National Seed Development Organisation

The form and timing of a commission to a merchant bank to advise on the feasibility of privatising the NSDO (which markets plant varieties developed at a state research institute) is under consideration. The timing and proceeds of privatisation are uncertain.

C13. Professional and Executive Register (PER)

PER was put on a full cost-recovery basis from April 1983 and is now meeting its self-financing objectives. Its future is currently under active consideration by Ministers, who are reviewing a range of options. At present if major change is contemplated the sale of PER as a going concern looks less plausible than closure accompanied by the possible sale of certain parts of the operation. The nature and timing of any decision on PER's future will have to take account of developments in other aspects of the Manpower Services Commission's operations and related sensitivities.

D. RESIDUAL GOVERNMENT SHAREHOLDINGS

1. British Aerospace

2. BP

3. Britoil

4. Cable and Wireless

5. BT

D. RESIDUAL GOVERNMENT SHAREHOLDINGS

[Current share prices; realisable proceeds would be lower.]
Policy is to sell as and when circumstances permit.

1. BRITISH AEROSPACE

The Government's residual shareholding of 48.43 per cent was sold on 1 May 1985 for around £350m (net).

2. BP

The Government's residual shareholding of 31.7 per cent is valued at £3,182m.

No further sale is possible before September 1985.

3. BRITOIL

The Government's residual shareholding of 48.8 per cent is valued at £518m. A sale of this entire holding in 1985-86 has recently been announced.

4. CABLE AND WIRELESS

The Government's residual shareholding of 23.1 per cent is valued at £538m.

No further sale is possible before December 1985.

5. BRITISH TELECOM

The Government's residual shareholding of 49.8 per cent is valued at about £6,570m.

No further sale is possible before April 1988.

File 3

SECRET AND PERSONAL Copy No 2 of 3

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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01 211 7214

Miss Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1 May 1985

Dear Margaret

SPECIAL SALE OF ASSETS 1985/86: BRITOIL

The Chancellor wrote to my Secretary of State about this yesterday, 30 April.

I am writing to confirm that my Secretary of State is content with the terms of the draft Parliamentary question and answer and for the Chancellor to proceed as he proposes.

A copy of this letter goes to Andrew Turnbull at No 10.

Yours sincerely

Philip Evans

P R EVANS
Private Secretary

SECRET AND PERSONAL

SECRET AND PERSONAL

file KPo 2
LO2 ADR

10 DOWNING STREET

1 May 1985

From the Private Secretary

SPECIAL SALE OF ASSETS 1985-86: BRITOIL

The Prime Minister has seen the Chancellor's letter of 30 April and is content with his proposals.

I am copying this letter to Michael Reidy (Department of Energy).

ANDREW TURNBULL

Mrs. Rachel Lomax,
H.M. Treasury.

SECRET AND PERSONAL

RESTRICTED

NBPM AP 2/5 CCNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/Secretary of State for Trade and Industry

30 April 1985

Richard Hatfield Esq
Private Secretary to
Sir Robert Armstrong
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

Dear Richard,

BRITISH AEROSPACE SHARE ISSUE

The prospectus for the forthcoming sale of shares in British Aerospace is to be published on 1 May. In the wake of this, the question may arise, as with the BT share issue, as to whether Ministers might acquire shares in the issue. The advice remains essentially the same as that given in respect of the BT issue and I would refer you and others to the letter which I sent to Alan Davis on 5 November covering the question in relation to BT (a copy of that letter is attached for ease of reference).

2 I am copying this letter to Private Secretaries to all Cabinet Ministers, Private Secretary to the Paymaster General and to the Chief Whip (with the request that they copy it to Ministers in their Departments as appropriate).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Encl

JH3BQL

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU436
Secretary of State for Trade and Industry

5 November 1984

CONFIDENTIAL

Alan Davis Esq.
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

Dear Alan,

BT SHARE ISSUE

Thank you for enquiry concerning whether there was any difficulty in Ministers acquiring BT shares in the course of the forthcoming share issue. In view of the applicability of this question more widely, I am copying this reply to the Private Secretaries to all Cabinet Ministers, with the request that they should copy it to Ministers within their Departments as appropriate. In preparing this reply, we have consulted Sir Robert Armstrong's office, to whom this is also copied.

The question essentially concerns two points: whether it is proper for Ministers to purchase shares in the BT issue, and, secondly, what are the constraints, either legal or of propriety, in respect of the holding of BT shares.

On the first question, we take the view that it would be ill-advised for Ministers in this Department to purchase shares in the forthcoming BT issue. This is because otherwise we risk a potential conflict of interest where Ministers are both shareholders themselves and are responsible for, or associated directly with, decisions which will affect the circumstances of share holders immediately following the flotation, either through the share price, or matters affecting the regulation of BT or its competitors and suppliers. For this reason, we believe that the same advice should apply in respect of Treasury Ministers who are concerned with the privatisation programme, and to the Prime Minister.

The position is less clear cut in the case of Ministers not directly concerned with the privatisation of BT. The guiding principle is that laid down in Questions of Procedure for Ministers that Ministers "must so order their affairs that no

9/6/11

conflict arises, or appears to arise, between their private interests and public duties" and specific guidance in share-holdings is contained in paragraphs 72 and 73.

Paragraph 73 says that Ministers should "scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities". The decision to privatise British Telecom, has, of course, been the subject of Cabinet and Cabinet Committee discussion and this has inevitably involved consideration of BT's prospects. Although many Ministers will not have had access to detailed financial information there is a danger that Ministers might be thought to have had access to inside knowledge. There is therefore some risk of embarrassment and the safest course would be for Ministers not to purchase shares, at least during the initial flotation.

I should now turn to the second question, concerning the subsequent holding of BT shares. Here, of course, the issues are very like those which would apply to the holding of any securities, but particularly shares held in any company where the Government continued to be a substantial minority share-holder, and to have substantial contractual and regulatory dealings. The legal issues are quite straightforward in broad outline;

i it is a criminal offence ("insider dealing") for a Crown servant (i.e a Minister or a civil servant) who has, because of his position, price sensitive information about a company's securities, to deal in them on the Stock Exchange (here or abroad) unless he can prove he did not intend to take advantage of the information. Actually applying for BT shares does not fall within this (because, in the view of our solicitors, it is not done on the Stock Exchange - it is, rather, a straight contract with the Secretary of State). However, it is most unlikely that a Minister (or civil servant) other than one concerned with the regulation of or contacts with BT or its competitors, will have such information because of his position per se.

ii If Ministers (or civil servants) are regulating BT or one of its competitors, or suppliers, or (conceivably), customers, a share holding in BT may well be evidence of bias. Bias invalidates administrative acts and may well found an action in damages against the Crown.

Here again, I should draw your attention to the advice contained in Questions of Procedure, and particularly to the paragraphs referred to above.

I hope you will understand that, in sum, the advice which we have to give is not categorical; whether or not Ministers think it would be appropriate in their circumstances for them to consider purchasing BT shares must be a matter for them. In deciding, Ministers will wish to take account of the advice contained in Questions of Procedure for Ministers, the considerations that I have mentioned above, and the involvement or lack of it which they may have with matters currently or prospectively affecting British Telecom. It should, however, be borne in mind that it is as important to avoid the appearance of conflict of interest as to avoid actual conflict and if in doubt it is usually better to err on the side of safety.

Yours ever.

Andrew Lansley

ANDREW LANSLEY
Private Secretary

4.44

SECRET AND PERSONAL

Prime Minister
Britoil themselves are anxious for HMG to sell to end uncertainty
Agree this proposal?
AT
30/4

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

30 April 1985

The Rt. Hon. Peter Walker MBE MP
Secretary of State for Energy

Dear Peter

SPECIAL SALE OF ASSETS 1985-86: BRITOIL

You wrote to me in December about the sale of our residual shareholding in Britoil, and in my reply I fully accepted the points you made about the desirability of such a sale.

It was not, of course, possible to sell oil shares ahead of the Budget but I now think we have the right opportunity. The slippage of the British Airways sale has created a spare place in the Bank of England queue at the end of July and I would like to use this to dispose of our entire residual holding, apart from the shares needed to provide the small shareholder bonus. Philip Shelbourne would be quite content with such a disposal. The proceeds would be about £500 million.

The organisation of the sale would need to start immediately and I would therefore like to announce our intention to the House as quickly as possible, although I would not specify the precise date. We need to avoid a clash with your likely announcement on BGC so, subject to any comments you or the Prime Minister may have, I propose to table the attached PQ for answer on Thursday 2 May.

I am copying this letter to the Prime Minister. I would be grateful if it could be retained in Private Offices until after the announcement.

Yours
Nigel

NIGEL LAWSON

SECRET AND PERSONAL

DRAFT WRITTEN PQ

To ask the Chancellor of the Exchequer about his plans for the Special Sales of Assets programme.

DRAFT REPLY

It is the Government's policy to sell its residual holdings in privatised companies as and when circumstances permit. As part of this policy I now intend to offer for sale this year the whole of the Government's residual holding in Britoil, apart from those shares needed to pay out the small shareholder bonus.

10 DOWNING STREET

Prime Minister

The price agreed was 375p, at the bottom of the range but still yielding the Govt. around £360 million.

AT
30/4

cc Policy Unit

Prime Minister ②

To note

AT 29/4

PRIME MINISTER

MG

BRITISH AEROSPACE

Preparations for the sale of the remaining Government shareholding in British Aerospace are on schedule. Impact Day will be Wednesday 1 May (this remains confidential at present) and the offer will be open until 10 May.

2 The price will be determined tomorrow evening, and Geoffrey Pattie will announce it in the House on 1 May. At present it looks like being within the 375-385p range, implying net proceeds to the Government of upwards of £360m. However, the final determination of the price will need to take account of developments over the next 24 hours in both the BAe share price and the financial markets generally, and could be outside the range mentioned.

3 The price will be payable in two instalments (on application and by 10 September). The initial payment has already been announced as £2.00p. 55% of the offer will be "placed firm" with institutions (the same percentage as British Telecom). The company has agreed to allot a "Special Share" to the Government, which will ensure our ability to maintain BAe within UK control.

4 You will recall that it is an unusual feature of this sale that BAe itself has decided to raise new capital simultaneously. They are issuing 50 million new shares (about half the number the Government is selling), so that the combined value of the offer may be in the £500-£550m range.

JH4AZQ

5 I do not expect this offer for sale to attract the same level of public demand as BT. BAe is a different type of company, involved in a highly competitive international field where both risks and rewards are great. Against this backgound we have deliberately adopted a relatively low-key marketing campaign. We are advised, however, that interest is firm and I am hopeful that this will be a successful sale in the context of the privatisation programme as a whole.

6 I am copying this minute to Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

NT

N T

29 April 1985

Department of Trade and Industry

JH4AZQ

Econ Pol: Privatisation

1) SDP CDI.
2 Prime Minister
To note AT 29/4

BT

CCNO

FCS/85/118

SECRETARY OF STATE FOR TRANSPORT

MT

Laker and UK/US Aviation

1. Your minute of 4 April to the Prime Minister and members of the Cabinet reported the substantial progress made by British Airways lawyers towards settling the Laker liquidator's anti-trust suit and that prospects for a settlement of the class actions also appeared to be promising. This is very satisfactory. But, as I know you appreciate better than any of us, other important aspects of our civil aviation relationship with the United States still need to be improved. I hope it may be helpful if I offer some thoughts at this stage on some of those questions.

2. The most immediate issue is the need to negotiate satisfactory arrangements to regulate "capacity" (the number of flights allowed on each route), to replace Annex 2 of the UK/US Air Services Agreement ('Bermuda 2'), which lapses in July 1986. I believe that the course most in our interests will be to discuss replacing Annex 2 in the context of a general liberalisation of bilateral air services, to which we know the US Government attaches considerable importance, including both capacity and the provisions for the official approval of fares. We have been subject to a good deal of US pressure already to liberalise air services; and the feeling still persists in Washington that we have yet to respond adequately to President Reagan's decision in November 1984 to stop the Laker criminal anti-trust proceedings. It would be strongly to the disadvantage of the British airlines if Annex 2 lapsed and was not replaced; but by widening the scope of

/discussions

discussions we ought to be able to obtain better arrangements for the future. In doing so we need to take full account not only of the trading conditions facing British airlines but also of the major business and tourist benefits which the passenger traffic on the North Atlantic currently brings to the United Kingdom, and the potential advantages in these areas which more liberal arrangements should bring. I understand that a first round of UK/US discussions on Annex 2 is likely to take place in June: our officials should be instructed to produce early proposals on the conduct of these negotiations for Ministerial approval, particularly as, in certain circumstances, it might be necessary to give notice of termination of parts of Bermuda II as early as July 1985.

3. In approaching the negotiations we should not in my view seek to make our offers conditional on changes in the United States anti-trust laws to remove private triple-damage remedies from international civil aviation. New and more liberal arrangements on capacity and fares are to our advantage: to attempt to obtain a commitment to legislation which the Administration says it could not at present get through Congress would be pointless and might jeopardise our primary aim.

4. Nevertheless, the threat of private anti-trust actions continues to hang over British airlines even though it is, in our view, incompatible with an agreed bilateral framework for air services. For the present, the British airlines must obviously be meticulous in obeying the law and taking full advantage of such procedural safeguards as already exist. But our aim should remain to secure in the longer term, the ending of civil treble-damage suits in the civil aviation sector - for which there is already some support in the United States. To that end we should take any appropriate opportunity to point out to the United States Administration that the anti-trust threat introduces harmful uncertainty into the airlines'

/operations

operations with practical consequences for passengers, that the existing or even marginally improved procedural safeguards are cumbersome, and that we see mutual advantage in legislative reform.

5. I am copying this minute to the other members of MISC 112.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
29 April 1985

Econ Pol Pt 12

Privatisation

BP file.
Treasury say there is no substance to this story. It is true BP have surplus cash but does not want to highlight its lack of idea for using it by buying back its shares
AT 30/4

the key post. But there is no point in rushing to apply. The list of possible candidates is already down to three and is said to include John Duncan, who cut his teeth at National Westminster Bank, and a former colleague of Duncan's from Dewe Rogerson, the public relations group.

Duncan, 49, is at American Express. He was slightly bemused when asked about the Pru, and said: "I have a marvellous job here and American Express are wonderful people to work

demonstrate the change in thinking about the role of PR.

The Pru, along with most of its competitors, was appalled when tax relief on life assurance premiums was chopped last year. This time the insurance industry fired every shot it had and successfully sunk the campaign for sensible tax treatment of pensions.

Last month the Pru surprised everyone by raising the dividend 18%, despite earnings shrinking to less than

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In turn, Jardine owns 40% of Land company. To gain control of the two – and the Land company is the real prize – a bidder thus has to buy the Keswick stake. And that, according to the head of the family, Henry Keswick, is not for sale.

At any price? To have any hope of getting control of Jardine, Keswick reckons, a bidder would have to offer at least HK$30 a share, against the current HK$12. That would capitalise it at around £1.3 billion – and make it too big a mouthful, even for the biggest bidders.

Jardine and the Land company are now coming right, the joint debt burden has been reduced from a potential HK$33 billion (a crippling £3.5 billion) to a more supportable HK$14 billion (£1.5 billion). Between the two, nearly £1 billion of losses have been written off but shareholders funds are still around £1.9 billion.

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closing price of 408p, an 8% discount means an offer at 375p, though the striking price will depend on how the share moves tomorrow and Tuesday.

Subscribers will have to put up only 200p, with the balance due in September, along the lines of the British Telecom issue. Kleinwort Benson and Lazard Brothers, the bankers handling the sale, have learned a lesson from BT.

But do not expect a BT-style profit if you decide to buy. BAe shares have run up from 350p when the sale was announced, helped by a continuous flow of good news and a painstaking process of educating journalists and the City in the correct way to view the company's prospects.

Lawson may try no-fuss BP sale

by Ivan Fallon

IS THE government about to raise another £1 billion from its most reliable and dependable cash cow, BP? Thursday's annual meeting of the oil group is awaited with keen interest and a growing belief that the chairman, Sir Peter Walters, might say something about his plans for spending at least part of the group's £3.8 billion of cash. Might he, for instance, decide to exchange £1 billion for a slice of the government's remaining 31.7% stake?

The chancellor, Nigel Lawson, is known to feel that there is no reason for the treasury to retain any shares at all in BP. Back in the late 1970s, the government, after the Burmah collapse, ended up with 70%.

The attraction of the company using its cash to buy back its own shares is obvious. The government could get £1 billion with a minimum of political fuss and no complaints about the huge City expenses involved in a share issue. For its part BP could actually improve its earnings per share and find a more immediate use for its cash holdings than some of the riskier and longer-term oil developments it is considering.

The last government sale was in 1983 when 130m shares, or 7.2% of the equity, raised £550m. The government could take its holding down to 25% and still, in accounting and board terms, retain all its existing rights and privileges. The shares rose 13p to 560p on Friday as rumours spread, but also on the back of large buying from the New York broking house, Goldman Sachs.

WHAT'S

Hotline to the City's

Gone for a Bu

IN 10 days time, **Debenhams** is due to proc
the stores group could be on the wrong end
predicted bid. If Ralph Halpern, chairman
decides that he prefers to add Debenhams' H
of menswear group Collier to his empire, he
the first shot. No talks have taken place w
Thornton, but Halpern is considering what to

It might help concentrate his mind to
Chartered Bank ran the rule over Debenha
group to break it up into retailing, property
Debenhams' shares have been bid-fuelled
this year, but any bidder would have to start
pay a good deal more to win.

☐ SHAREHOLDERS in **Energy Services & Electronics** which is at the receiving end of an unwelcome £33m bid from **Peek Holdings**, should sit tight. Peek, a shell company being used as a vehicle for the bid by the South Africans Julian Askin and Hugo Biermann, is offering 70p in cash with a share exchange offer worth 82p. In contrast, Energy's shares peaked at 94p by the close on Friday. Either the market expects Peek to increase its terms or it has got wind of a counter bid.

☐ SHARES in Algy Cluff's **Cluff Oil** have climbed to 63p from 48p since they were tipped here in March. Last week however they dropped back to 53p as the company failed to produce figures, expected last Tuesday. Says Algy: "We are up to our ears in lawyers, crawling over the details of the scheme to merge two classes of shares. It will all come out next Friday." Expect cheerful news of a Scandinavian farm-in to Cluff's Chinese offshore empire to keep interest in the shares bubbling.

☐ NORTHERN **Engineering Industries** has had a good run lately, but still looks vunerable to a bid. Word has

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B. P. Sale

Revise

File

NAVAL DOCKYARDS

General Line to Take

My rt. hon. Friend's proposals are designed to get greater efficiency in the naval dockyards and hence better value for money for the defence budget. I recall the Leader of the Opposition said at the Labour Party Conference in 1983:

> "We very much do want value for money, because it is our money".

The Opposition have not made a single practical proposal for improving efficiency in the naval dockyards.

Evidence of Inefficiency

The Government could not accept a situation in which absenteeism in the dockyards accounts for a full working month on average for every employee - about 40% above the national average.

Loss of Jobs

Of course the Government regrets the loss of jobs necessary to achieve greater efficiency. My rt. hon. Friend announced yesterday the special efforts which his Department will be making in co-operation with the local authorities involved to create opportunities for further employment in the areas affected. Moreover, Plymouth has already been designated as an Assisted Area under the Government's regional policy.

Opposition Attitude to Job Losses

The Opposition's defence policy would itself involve massive job losses (between 2,000 and 3,000) at Rosyth.

Wrong in Principle for Contracting Out of Naval Dockyards

As my rt. hon. Friend pointed out yesterday, there are a number of American examples of large defence organisations being managed under the system he proposes. Experience has demonstrated that the private sector can contribute as much to the defence effort as the public sector.

Dr. Owen's Approach

When the rt hon Gentleman was Minister for the Navy he carried out a review of Naval dockyards which he described as "A vigorous policy to get greater productivity with a smaller labour force". His proposals envisaged a total reduction of 5,000 personnel in the Naval dockyards. The difference between his proposals and those of my rt hon Friend is that his did not work.

Extend Period of Consultation?

As my rt. hon. Friend said yesterday, these proposals have been under consideration for a very considerable time. I do not believe that an extension of the period of consultation would be justified.

Mr. Levene

The appointment of Mr. Levene as Chief of Defence Procurement was made by my. rt. hon. Friend to bring a more commercial approach to a procurement budget of some £8 b.

Appointment Illegal?

There is no question of this appointment having been illegal. It began on 19 March and is under a fixed term contract not exceeding 5 years in accordance with paragraph 1(2)(g) of the Civil Service Order in Council 1982.

18 April 1985

EXTRACT FROM STATEMENT ON DEFENCE ESTIMATES 1969

PRODUCTION, REPAIR AND SUPPLY ORGANISATION IN THE UNITED KINGDOM

36. The following paragraphs report the main features of the programmes of the production establishments in 1969–70 and describe the progress made with further measures to improve management efficiency in the production, repair, and supply organisation.

H.M. DOCKYARDS

37. As stated in Chapter I, paragraph 29 a review of the future of H.M. Dockyards in the United Kingdom has now been completed and all four home dockyards will still be required. The main aim of the review has been to work out the most effective and economical dockyard support for the Fleet. It has also been to plan a dockyard organisation which will match the reduction in the future size of the Fleet, and in naval support as a whole.

38. The workload for the next ten years has already been largely determined by the destroyers, frigates and submarines which are now in service or on order. Rosyth Dockyard, which has been developed to support the Polaris force and at present is engaged on the refit and refuelling of H.M.S. *Dreadnought*, will slightly increase its labour force over the next five years. The labour force at Portsmouth, Devonport and Chatham Dockyards will gradually fall in size, by natural wastage as far as possible, thus producing the total reduction of some 5,000 civilian personnel by the mid-1970s mentioned in Chapter I. This is a continuation of a rundown which, over the past five years, has amounted to some 4,000 in the United Kingdom. Singapore Dockyard has already been transferred to the Singapore Government, together with 3,500 employees. Until we finally leave the Far East, the yard will continue to carry out a substantial amount of repair work for the Royal Navy, but after our withdrawal we shall not need to plan for its regular use.

39. Portsmouth, Chatham and Devonport Dockyards will continue to have a full load of work. Portsmouth Dockyard, which has just started the first long refit of the guided-missile destroyer H.M.S. *Devonshire*, will become the type yard for this class. It will continue to refit a wide range of other ships including conventional submarines and frigates. Chatham Dockyard can now carry out the intermediate dockings of nuclear submarines and is expected to start its first nuclear refit about the end of the financial year 1969–70; Devonport Dockyard will, when the major refit of H.M.S. *Ark Royal* and the building of the *Leander* class frigate H.M.S. *Scylla* are complete, become the "lead" yard for *Leander* class frigates. It will also be developed as a third nuclear submarine dockyard capable of undertaking refits as the need builds up in the 1970s.

40. In the longer term, substantial dockyard support will still be needed; for the new, more advanced classes of ship and submarine which will enter the Fleet during the next ten years require even greater skills and work of even higher quality than in the past. The refit of nuclear submarines involving the most advanced techniques, for example, will be a particularly large commitment, which will grow until, by the end of the 1970s, it will at least equal the workload of aircraft carrier refits in recent years. We thus have the strongest incentive to fit more and more standardised equipment in ships in order to simplify maintenance and repair. We shall also design ships with a greater emphasis on ease and economy of refit.

41. H.M. Government's decision on the future of the home dockyards will be the basis for a vigorous policy to get greater productivity with a smaller labour force. The efficient upkeep of the Fleet will depend upon its success.

42. Many of the measures necessary to achieve this are the responsibility of management and are already in hand. They will lead to changes in

responsibilities and procedures which will require a willingness by the Trade Unions to accept some modification in traditional practices. For without such changes, substantial increases in pay cannot be justified.

43. The following steps are being taken to stimulate productivity:

a. to follow up the improvements in management which we have made in recent years by giving greater authority to General Managers in the individual dockyards. At Headquarters, an executive under the Chief of Fleet Support will be the responsible authority for managing all the yards.

b. to replace, rather than repair, individual components in ships.

c. the gradual introduction of a system under which either complete classes of ships will be based on particular dockyards or one dockyard will become the "lead" yard for a large class, such as the *Leander* frigates.

d. a comprehensive rationalisation and modernisation of workshops and other facilities in the yards.

44. If the aims of the Dockyard Review are to be carried out, we must plan at the same time for reductions in the labour force and for greater output in the dockyards. Natural wastage will make the major contribution towards reducing the labour force, but it will be essential to re-train certain tradesmen if redundancy is to be avoided. We want to work in the closest partnership with the Trade Unions with the object not only of making the dockyards more productive and efficient but, at the same time, seeing that those who work in them obtain a fair share of the benefits which these improvements should bring. With these objectives in mind, productivity working parties have already been set up in the dockyards and discussions have started with the Manpower and Productivity Service of the Department of Employment and Productivity.

PRIME MINISTER

Infrastructure

You asked to discuss John Redwood's note. You also suggested that you might circulate a paper to Cabinet on infrastructure. It seems to me that John's note contains three suggestions:

(i) Better publicity for the Government's case.

(ii) The size of the roads programme and the priorities within them.

(iii) The management of Government capital projects.

In each case different Ministers will be in the lead, e.g. Lord Whitelaw on (i), Secretary of State for Transport on (ii), and Treasury/Environment on (iii). The officials involved are also likely to be different. This points to setting out three separate remits rather than trying to roll them up into one.

AT

Andrew Turnbull
18 April 1985

CONFIDENTIAL

DA

10 DOWNING STREET

From the Private Secretary

15 April 1985

This is to record that the Prime Minister has seen and noted your Secretary of State's minute of 4 April reporting on progress with the privatisation of British Airways. She agrees with the three points on presentation to which your Secretary of State refers and in particular (c) on avoiding reference to her personal role in persuading President Reagan to drop Department of Justice indictments in 1984.

(Timothy Flesher)

Richard Allan, Esq.,
Department of Transport.

CONFIDENTIAL

R38

CONFIDENTIAL

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

Tim Flesher Esq
10 Downing Street
London SW1

9 April 1985

Agreed with HMT to defer circulation

12/4.

Dear Tim,

PRIVATISATION

Andrew Turnbull wrote to me on 28 February saying that the Prime Minister thought it would be appropriate for E(A) to have a further look at the privatisation programme "in about a month's time". We now have a near-final draft of a paper; however, in view of current major developments in the programme, of which you will be aware, we should prefer to hold on to it for a little longer.

Accordingly, unless you see any objections, we intend to defer circulation until end-April, by which time we shall be able to take present developments fully into account.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours ever
Rachel.

RACHEL LOMAX

Privatisation Pt 11

John. - I think we should have an "Infrastructure" paper (if will have to be by me - to Cabinet - for one across the whole of Govt - I agree about discuss?)

Prime Minister: B/F Thursday

Two issues here:

i) the roads programme, on which the Policy Unit propose a discussion on the balance between construction and maintenance

ii) contracts, on which they are worried about over-runs and propose asking the Efficiency Unit to remind Depts to tighter up their procedures.

Agree these suggestions?

PRIME MINISTER

4 April 1985

CAPITAL SPENDING AND INFRASTRUCTURE

The Government is accused of neglecting the fabric of the nation. Some months ago we drew attention to the dangers of the argument that simply increasing capital spending would solve the jobs problem. Some efforts have been made to counter this, but the public still believe:

12/4

a. the nation's infrastructure is in a sorry state;

b. the Government is cutting expenditure on it;

c. capital spending is good for jobs.

There is a danger in leaving the Government associated with public squalour and tattiness. This Government should believe in modernising those things which are part of the public sector, which are worthwhile, and are not suitable candidates for privatisation. It should claim credit for the £22bn of public investment it is undertaking each year; should take another look at the priorities in its capital programme; and at the way it is handled, to see if more can be bought for the same money.

Health

In 1984/85, 46 hospital projects were under construction in the UK, costing over £10m each, and a further 10 schemes are

scheduled to start in 1985/86. The Blood Products Manufacturing Unit, the Central Public Health Laboratories, and the National Biological Institute are being reconstructed.

The DHSS have introduced better preparation and tougher disciplines over contract management, leading in their view to a saving of the order of 5% on estimated costs of the total programme. But there have been problems with some contracts. The worst is at Great Ormond Street, where £11.5m is having to be spent on remedial works. The design consultant and others are being sued. There is also litigation pending over the Newcastle teaching hospital, where there was a £6m overspend on a £15m contract.

Despite the changes in procedures, the main pressure is to spend as nearly as possible the amount budgeted. It may be that a further tightening of procedures could reduce contract prices still further.

We have begun to be proud of our new hospital building programme. Far too many of our hospitals are old and out-dated, and this Government is tackling the problem with some vigour. But we need to re-present it, perhaps in a document with illustrations setting out the national plan for renewing our hospital fabric, and showing what has been achieved to date.

Roads

Over the last 3 years, capital expenditure on motorways and trunk roads has been 25% or more above the level of the late 1970s in real terms. Capital and current expenditure on local roads has been held steady.

Road-users are spending nearly £50bn each year on road transport. £11bn of this is paid in tax and duty - roughly four times the public expenditure on roads. 60% of all households have at least one car, and for households headed by an employee or a self-employed person, the proportions are 80% and over 90% respectively. Road traffic has increased threefold since 1961. Latest projections show this trend continuing, so that by 2000 there could be up to 50% more cars on the roads. As we are now planning to do with airports, there is a compelling need to follow and set out a coherent long-term roads policy. In the past, there has been too much wasteful muddling through.

Maintenance vs. new construction

The motorways of the early 1960s proved to be more popular than expected. As repairs were not carried out quickly enough, and suffered from cuts in programmes in the mid-1970s, we now face expensive structural renewal. Over an 8-10 year period, we will end up spending over £200m on

this, with the delay and disruption to motorways users put at an additional estimated £50m per annum.

Much of the recent 25-30% increase in capital expenditure on trunk roads has been swallowed up by motorway reconstruction. Department of Transport fear that the diversion of resources to motorway maintenance is increasing the backlog of maintenance work on other roads. They foresee the backlog mounting rapidly from 300 miles now to 500 miles in 5 years' time, and 700 miles in 10 years. Local roads too, they believe, are deteriorating, and our bridges and viaducts are also in need of repair. Major work is needed on the Severn Bridge and the Midland Links Viaducts. There are also fears about the durability of concrete in some of our structures, because of the interaction of the cement with certain aggregates used in earlier construction.

Some of this reflects the usual lobbying by a spending department. Much of their information comes from the industry dependent upon maintenance and reconstruction contracts. Some of it reflects the way in which traffic growth and the axle weight of traffic has increased beyond all reasonable forecasts in the early 1960s. But given the way they think about the problem, more of our road budget will be taken up on reconstruction work; and the maintenance backlogs as they record them will grow, enabling lobbies to build around the theme that we are neglecting the infrastructure.

A policy for roads

New roads must be built to high standards with low maintenance costs in mind. The Victorians can still teach us lessons, as they had unshakeable confidence in the future and built to last. Engineers have been working to too tight a set of tolerances on specifications, egged on by Treasury-type analysis, using high real-terms discount rates which puts most of the emphasis on saving initial capital cost without worrying about subsequent high-cost maintenance. Transport are beginning to improve their specification to rectify this problem.

For new construction, we need to set out clearly to the public our priorities, including the expansion of the network of motorways and primary trunk roads; the relief of London's traffic problems (neglected under the GLC); and our bypass programme. We need to reduce the average of 11 years from inception to the start of construction for new trunk road schemes (Patrick Jenkin's Planning Review should help); and to consider the balance of the future road programme (see Annex of likely new road programmes; map available in the Policy Unit if required).

The execution of new construction projects offers considerable scope for savings. The Endacott Report brought out large over-runs on contract costs. The M25 work in the Heathrow area is over-running the estimate by over 40%.

There have been many areas of defective work, particularly with bridges and overhead sections (Spaghetti Junction, Severn Bridge, and sections of roads - as with the M40 in the Chilterns - where there have been design and fabrication errors).

The latest Supply Estimates do show considerable savings being achieved as the construction industry is becoming more competitive. But this should not allow us to relax, as there are still design and supervision failures that are all too costly.

Prisons

Prisons and Crown Courts

There is a large prison building programme with some quite significant cost over-runs. Wymott (+40%); Frankland (+20%); and Bicester (not yet started, +16%). Seventeen major Crown Court buildings are under way. The recently completed Crown Court in Liverpool exceeded the estimate of £37m by almost 50%.

The PSA

Although a larger number of buildings are now completed on time and to budget, there are still some big projects that go awry. The Wellington Barracks has proved to be all too costly, and many defence projects seem to over-run.

Conclusions

Management of contracts

You could ask the Efficiency Unit to remind departments of the need for good contract management within government, paying particular attention to:

a. Ensuring the design problems are thought through before the contract is let: all too often expensive renegotiations take place with the contractor once he is on site.

b. Ensuring that most contracts are usually put out to competitive tender, and that adequate protection is taken to ensure that there are no bidding rings.

c. An investigation into the balance between initial capital cost and subsequent maintenance costs.

d. An examination of whether over-specification (as opposed to high standards of construction) is a common phenomenon.

Presentation of the Government's case

You could write to Norman Fowler/Kenneth Clarke in Health, and Nicholas Ridley for Roads, that in these two areas in

particular, the Government accords capital spending a high priority, and is undertaking a firm programme to renovate the hospital sector and extend the road network.

A statement of what has been achieved and what can be achieved in the next 3 years could be considered for these two areas.

The Government should stress that it is rebuilding the infrastructure where necessary, but that not all capital spending is worthwhile or to be encouraged.

Policy Review

It would be worth having a meeting on the roads programme to explore with Department of Transport:

a. The balance between remedial maintenance, reconstruction and new construction.

b. The shape of the road programme over the next 4-5 years and what can be achieved.

JOHN REDWOOD

(David Hobson has researched cost over-runs and contract management. John Wybrew has worked on the roads programme.)

Major Improvements (Costing more than £20m) to Trunk Roads and Motorways Completed between Spring 1979 and Spring 1985

1. A3(M) Horndean-Bedhampton
2. M26 Dunton Green-Wrotham
3. M20 West Kingsdown-Wrotham
4. M67 Denton Relief Road Stage 1
5. M25 A11-A10
6. M20 Sellindge-Folkestone
7. M20 Ashford-Sellindge
8. M63 Stockport East/West Bypass
9. M25 Yeoveney-Airport Spur
10. M602 Extension
11. M25 A12-M11 Contract 1
12. M25 A12-M11 Contract 2
13. M25 A13-A12 Contract 3
14. M25 A10-M11 Contract 1
15. M25 A10-M11 Stage 3
16. M1 Widening
17. M65 Burnley-Huncoat
18. Chertsey-Wisley M25
19. A5 Milton Keynes Bypass
20. Ladymead-Burpham A3
21. Mar Dyke-East of Grays A13
22. A120 Colchester Eastern Bypass
23. A19 Billingham Diversion
24. A45 Ipswich Bypass (Orwell Bridge)
25. A180 Ulceby - Grimsby
26. M25 M4-Maple Cross (M40-Maple Cross Section)

N.B. TO BE READ IN CONJUNCTION WITH PROGRESS MAP (BLUE DOTS)

Major Improvements (costing more than £20m) to Trunk Roads and Motorways due to be completed between Spring 1985 and Spring 1988

1. M25 M4-Maple Cross (M4-M40 Section)
2. M25 Airport Spur to M4
3. M25 Swanley-Sevenoaks
4. Micklefield Green-South Mimms Contract 1 M25
5. M25 Micklefield Green-South Mimms Contract 2
6. M25 Micklefield Green-South Mimms Contract 3
7. M25 Micklefield Green-South Mimms Contract 4
8. A1(M) Roestock-Stanborough
9. A406 South Woodford-Barking Relief Road
10. A20 Sidcup Bypass
11. A406 Hanger Lane-Harrow Road
12. A12 Chelmsford Bypass
13. A45 Ipswich Bypass (Western Section)
14. A361 North Devon Link Stage 2A (Tiverton-Newtown)
15. A38 Marsh Mills-Manadon
16. M42 Bromsgrove (Umberslade Section)
17. M42 Tamworth (Kingsbury Section)
18. M42 Tamworth (Water Orton Section)
19. M63 South docks Road, Hull
20. A6138 Kirkhamgate-Dishforth (A63 Austhorpe-A1 Branham)
21. A629 Airedale Route, Kildwick-Beechcliffe
22. M63/M66 Portwood-Denton
23. A6 Chapel-en-le-Frith Bypass
24. A27 Havant-Chichester Bypass
25. M5 Widening and reconstruction, Warndon-Catshill

N.B. TO BE READ IN CONJUNCTION WITH PROGRESS MAP (GREEN DOTS)

Major Improvements (costing more than £20m) to Trunk Roads and Motorways due to be completed after Spring 1988

1. M3 Bar End-Compton
2. M20 Maidstone-Ashford
3. A20 Folkestone-Dover
4. A406 Popes Lane-Western Avenue
5. A406 Falloden Way-Finchley High Road
6. A406 Great Cambridge Road (A10) Grade Separated Junction
7. NOT ALLOCATED
8. A406 Regents Park Road Junction
9. A406 East of Silver Street-A1010
10. A406 Chingford Road-Hale End Road
11. A406 Dysons Road-Hall Lane
12. A406 Wilmer Way Grade Separated Junction
13. A406 Green Lanes Grade Separated Junction
14. A406 East London River Crossing
15. A12 Eastway-Eastern Avenue
16. M40 Oxford-Birmingham (Otmoor Section)
17. M40 Oxford-Birmingham (Banbury Bypass)
18. M40 Oxford-Birmingham (Gaydon Section)
19. M40 Oxford-Birmingham (Warwick Section)
20. A43 Peartree Hill-Wendlebury Improvement
21. A47 Norwich Southern Bypass
22. A604 M1-A1 Link (M1 -Kettering)
23. A604 M1-A1 Link (Kettering Section)
24. A46 Leicester Western Bypass
25. A42 Castle Donington
26. A42 Measham-Ashby Bypass

continued

N.B. TO BE READ IN CONJUNCTION WITH PROGRESS MAP (RED DOTS)

27. A446 Essington-Bassetts Pole

28. A5 Telford-Shrewsbury

29. A564 Stoke-Derby Link (Derby Bypass-Derby Spur)

30. A46 Newark Relief Road

31. M66 Denton-Middleton

32. A6(M) Stockport North/South Bypass

33. A650 Airedale Route, Shipley Eastern Bypass

34. A1 Kirkhamgate-Dishforth (A1 Improvements Wetherby-Dishforth)

35. A6125 Newcastle Western Bypass

36. A428 Bedford Bypass

37. A27 Brighton Bypass

N.B. TO BE READ IN CONJUNCTION WITH PROGRESS MAP (RED DOTS)

It is likely that further proposals for major improvements will be added to the programme of road schemes following studies being carried out by the Department's consultants and the programme review which is currently under way.

cc NO 2

Prime Minister

To note

N 12/4

PRIME MINISTER

BRITISH AIRWAYS FLOTATION

I thought that Cabinet colleagues might be interested in a brief progress report on the privatisation of British Airways.

It became apparent at a very late stage last year that BA had failed to appreciate the seriousness for the prospectus of the anti-trust law suits mounted against them and other airlines in the US courts by the Laker Airways liquidator, and by representatives of allegedly aggrieved transatlantic travellers (the class actions). This failure made it necessary at the last moment to defer our plans to privatise BA in the financial year just ended. The uncertainties were far too great to be dealt with satisfactorily in the prospectus. You successfully persuaded President Reagan to drop the Department of Justice action in November 1984.

Though President Reagan's decision did not remove the civil suits, it created a more favourable climate for negotiated settlements. Since then, BA have been taking the lead on behalf of the defendants in seeking a negotiated settlement of both the liquidator's suit and the class actions.

The negotiations on the liquidator's suit have been complex, and there have been a number of obstacles in the way of a compromise acceptable to all the major creditors at a cost which the defendants collectively feel they can bear. But BA's lawyers have made substantial progress. They have also started negotiations with the lawyers responsible for the class actions and here too the prospects for a negotiated settlement seem promising.

I should add that these efforts to negotiate an out of court settlement imply no admission of guilt; ninety per cent of such actions in the USA are settled out of court and BA judge it to be in their commercial interests to resolve the uncertainty quickly. Civil actions of this kind, sponsored by contingency fee lawyers are, of course, a form of legalised blackmail which unfortunately businesses trading in the USA have to live with. Our objective must be to persuade the US Government to remove the unilateral application of anti-trust law from civil aviation, and to substitute agreed competition rules.

It is still too early to set a new target date for privatisation now, as the time which will be needed to resolve the remaining problem is uncertain.

I shall, of course, agree a new target date with the Chancellor of the Exchequer as soon as we can see a clear way forward. I am taking steps to ensure that at the right time we shall be able to put full marketing effort into the issue.

If Cabinet colleagues are asked about progress with privatisation over the next few weeks, they may like to draw on paragraphs 3-5 of this note. Points to watch are:

(a) we should avoid giving the impression that BA will pay over the odds for quick settlement of the outstanding actions;

(b) If the question of the reasons for the delay comes up, we should throw the blame where it belongs, on the pernicious US system;

(c) we should not publicly highlight your personal role in persuading President Reagan to drop the indictments.

I am copying this minute to members of the Cabinet and to Sir Robert Armstrong.

R. A. Allan.
(Private Secretary)

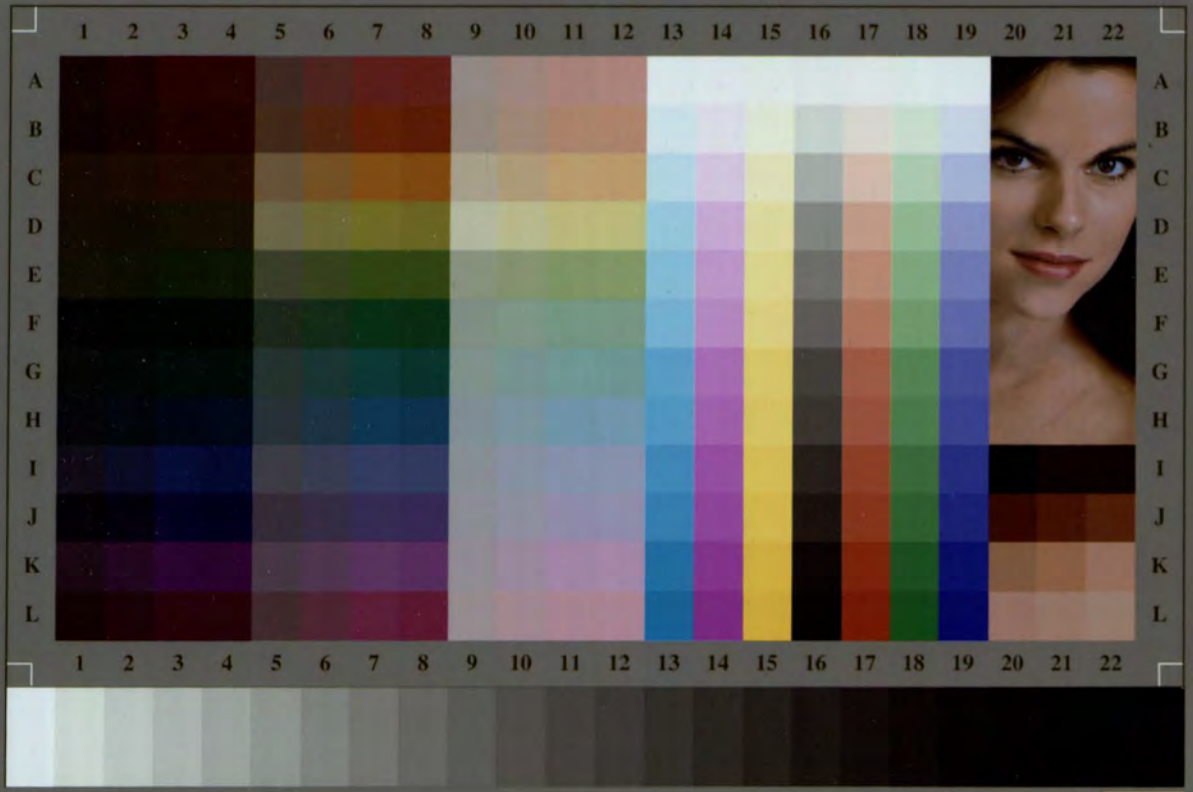
for NICHOLAS RIDLEY
4 April 1985
(approved by the Secretary of State + signed in his absence).

PART 11 ends:-

TF to DTp. 27.3.85

PART 12 begins:-

S/S Tp to PM 4.4.85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