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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

DISPOSALS IN 1980/81

Memorandum by the Financial Secretary

1. The Chief Secretary assumed in his Cabinet paper C(79)26 that disposals in 1980/81 would reduce public expenditure in that year by £500 million. Experience this year and the uncertainties about some of the proposals show that if we are to achieve this figure we need a list adding up to a considerably larger total. It is against that background that I take stock in this paper of the present plans or expectations of the responsible Secretaries of State. I have assumed that the achievement of the £1 billion total to which we are committed for 1979/80 will mean that in the light of previous discussions in E(DL), no proceeds from BP or BNOC can be counted on for 1980/81, though I recognise that this assumption may have to be revised. In the second part of the paper I discuss some general points arising from current plans or earlier papers.

PLANS OR EXPECTATIONS FOR 1980/81

Nationalised Industries etc

2. In my letter of 19 June I asked the Secretaries of State sponsoring nationalised industries and similar public corporations for separate information about sales of shares or assets in the whole business; parts of the main line business; non-main line businesses; and land and buildings.

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3. Their answers are summarised in the Annex. The firmest items look to be British Airways, British Steel and NEB. Their combined value is about £200 million. This might rise to £400 million if disposals of British Aerospace and Cable & Wireless were both made, and if both bodies were classified as part of the private sector.

Land

4. I understand that the Secretary of State for the Environment is likely to put proposals to E(DL) for speeding up disposals of surplus public sector land. But the impact on public sector land disposals is uncertain, and it is not yet possible to count on a contribution from this source to the 1980/81 disposals package.

5. The Secretary of State for the Environment is also examining options for the disposal of public sector land and buildings which are in operational use, with a view to putting a paper to colleagues in due course. The contribution from this source in 1980/81 cannot be estimated reliably now but we clearly need a minimum of £50 million and preferably more.

Comments

6. Some of the replies are no more than preliminary at this stage (for example page 2 of the Annex) and no doubt further proposals will be made in the follow-up letters I have asked for by the end of this month. But they prompt me to make the following specific or general points:

a) Sale of BGC's offshore oil interests in proved oil fields, following a sale of Wytch Farm this year, would add roughly £100 million. Powers to enforce this could be taken in the Petroleum & Submarine Pipeline (Amendment) Bill).

b) At present all the specific proposals, except for the National Freight Corporation (NFC), envisage that the State will retain 51% of the shares, even where existing controls would be

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renounced. I do not see the substantive justification for this rather odd combination and I wonder how strong or durable the presentational arguments are (the case of Cable & Wireless is certainly a special one). In particular, despite the apparent views of employees, there seem strong arguments for selling more than 49% of the shares in British Airways in 1980/81. This might also apply to the British Transport Docks Board.

c) If we cannot dispose of whole industries or of major share-holdings in them, I do not think we should reject sales of profitable parts, particularly where there are Manifesto commitments. The Dynamics Group of British Aerospace is a case in point and sale of it may well be desirable if we are to get the required proceeds in 1980/81.

d) We should be ready to dispose of nationalised industries' non-main line activities wherever possible. There is generally no good reason for these to be part of the public sector. British Rail's hotels are an example.

e) The replies from the nationalised industries were disappointing on land and buildings. Only on BSC was there anything firm, though the Minister of Transport hopes to increase sales from British Rail. I suggest that we should now press the Corporations for more. It may also be worth considering whether any of the Corporations omitted from the replies can offer disposals whether of land or other assets (the Electricity Supply Industry, the Coal Board, the Post Office and the British Waterways Board).

f) Where it has not already been done sponsor Ministers will wish to confirm with the Attorney General that the Corporations can legally make disposals or that, where they may not be willing to do so, the Government has powers to secure disposals.

GENERAL ISSUES ON DISPOSALS

Objectives

7. The Secretary of State for Energy suggested in his letter to me of 4 July that there should be "a collective discussion of the principles we would wish to apply in selecting assets for sale" and of the "respective weight to ... give to the various possible objectives".

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8. Our general approach to disposals was set out by the Chancellor in the following extract from the Budget Speech:

"Sales of State-owned assets to the private sector serve the immediate purpose of helping to reduce the excessive public sector borrowing requirement with which I was faced. This is all the more necessary this year, given the difficulty of cutting back public sector spending programmes once a year has already begun.

But such sales are not justified simply by the help they give to the short-term reduction of the PSBR. They are an essential part of our long-term programme for promoting the widest possible participation by the people in the ownership of British industry. This objective - wider public ownership in the true meaning of the term - has implications not merely for the scale of our programme, but also for the methods of sale we shall adopt."

In addition we take the view that reliance on private sector finance will strengthen market discipline. At the same time we want to maintain a healthy relationship which promotes efficiency without involving unnecessary interference with the Corporations that remain publicly-owned.

9. As we have made clear, there are a number of different objectives which may conflict. But it is not easy to imagine any general formula of "weighting" which will tell us what to do in particular cases, especially as we do not yet have a complete list of the possibilities and the differences between each case are so wide. It is for each sponsor Minister in the first instance to reach a view on the balance between objectives in his proposals before this Committee. The Committee should be able to ensure that we are not vulnerable to charges of inconsistency.

10. In addition it will be helpful to explain our objectives on this and other matters to the Chairmen of the nationalised industries. The Chancellor has agreed to a request from the Chairmen's Group to meet them later in the month, so there will be an early opportunity for this.

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Financial Arrangements after Disposal

11. There are a number of general points under this heading, which arise on the proposals for British Airways but would also be relevant both to minimising the future or contingent costs to public expenditure and the PSBR and to getting the largest possible spur to efficiency out of our policy. These include the following:

- a) We should seek to minimise the extent to which the Government "stands behind" any "privatised" entity ie in effect guarantees the debts or other liabilities of British Airways Ltd and similar bodies. There may be particular problems on pensions.
- b) Minimising the Government's shareholding and at least keeping it no higher than 50% helps this aim.
- c) The privatised body should be expected to get any external finance it needs from the market without guarantees. Unless we make this stick, there is a danger that we shall be dismantling the controls exercised by the Government over management but leaving management with their privileged access to public finance. The neatest solution may be to delay the change from statutory corporation to limited company until the Government are ready to relinquish control as well as to sell the shares.

CONCLUSIONS

12. I invite my colleagues:

- a) To agree that, subject to the uncertain assumption in para 1, we should aim at disposals in 1980/81 that will reduce public expenditure by £500 million; and that in view of the limitations and uncertainties of the proposals so far we need to compile a list of possibilities that adds up to a considerably larger total if we are to be sure of achieving this aim.
- b) To agree that the plan for 1980/81 should include:
 - i) sale of BA shares worth at least £100 million and preferably more than that;

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ii) disposals from British Aerospace in a form that reduces public expenditure or the PSBR by a similar amount;

iii) sale of BGC's offshore oil assets worth at least £100 million;

iv) sale of at least £200 million of assets owned by the British Steel Corporation, NEB, and Cable & Wireless, plus land covered by the Secretary of State for Environment's proposals;

v) other disposals still to be suggested by my colleagues; and to take account of the points in paras 6(d) and (e) in future work.

c) To agree the approach suggested in paras 8-10 to the general questions raised by the Secretary of State for Energy.

d) To note the importance - both for efficiency and for public finance - of the points about financial arrangements after disposal set out in para 11 and to agree that they should be considered in future papers for the Committee.

NIGEL LAWSON

H M Treasury
17 July 1979

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<u>Department Corporation</u>	<u>Proposal</u>	<u>Rough Value £m.</u>	<u>Date</u>	<u>ANNEX Sponsoring department's Remarks</u>
British Airways	Sell 49% of shares in "BA Ltd"	100-200	1980/81	Better price in 1981/82 if profit forecast fulfilled. Legislation this Session (Civil Aviation Bill). Government would give up control. 51% share kept to win over employees.
British Airports Authority	Nil			
British Aerospace	Sell 49% of "BAe Ltd" or Dynamics Group	100	1980/81	
British Shipbuilders	Sale of warshipbuilders (Vosper Thornycroft, Yarrow & Vickers)		1980/81	Negative after refunding advance payments; finance needed by rest of BS would be higher
British Steel Corporation	Non main-line (of which land	41-61 ?)	1980/81	Interim reply. More possible. Legislation not needed (provided Board considers sale in commercial interest of BSC)
Cable & Wireless	49% of shares	100	1980/81	51% share kept "to reassure governments" of territories C & W serves. Sale subject to consultations with them; to risk of frustration by possible Hong Kong exchange control; and to problem of reconciling reassurance to governments with statement to shareholders about non-intervention. Legislation required (separate from Industry Bill ?)
	Second tranche of Fairey shares	25	1980/81	Industry Bill to cover
	All remaining holdings	25	1980-82	
British Industrial Estates Corporation	Sale of leases or freeholds	10 5	1980/81 later years	Some Scope not yet certain. / Proceeds allowed for in main expenditure exercise. Legislation probably needed.

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Department
& CorporationProposalRough
Value
£m.Date

TRANSPORT:

National Freight
CorporationSell 100%
of shares

35

1981/82

Value, net of pension deficiency
assumes improved trading results
in 1979 & 1980 (1980 £10m better
than 1978). This is the sole
case where 100% disposal is
envisaged. Legislation is
needed.National Bus
CompanyNil
loss-making

British Rail

Nil for
main-stream.
Possible private
stake in Sea-
link or Hotels
being considered.
Accelerated sales
sales of surplus
land to be dis-
cussed with BoardComplete sale of profitable sub-
sidiaries "would undoubtedly
cause a strike".

Legislation needed.

British Trans-
port DocksPossibilities
to be looked atSale of individual ports might
cause strike. Legislation
needed.

ENERGY:

BNOC

Subject to review

Legislation needed

BGC

"Mixed capital
structure" to be
pursued with
Chairman

Legislation needed

AEA subsidiaries

BNFL

Not realistic

Radiochemical
CentreOfficials
examiningLegislation needed before more
than 40% sold (now for 1979/80)

SCOTLAND

Electricity
BoardsMain line
dependent on
England & Wales
policy.
Electricity re-
tailing & service.
STG main or ancil-
lary interestsIndustries not
mentioned:Electricity
(England &
Wales)National Coal
Board

Post Office

British Water-
ways Board