

00
I spoke to R.H. in the lobby - he says he is going ahead.

Doni mistake 'A'
would you like to speak to the Heseltine about this? Perhaps Lord Bellon could take this on.

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I had better remember this officially as a result of this memo.

Qa 04196

To: MR LANKESTER

From: SIR KENNETH BERRILL

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20/7

Sale of New Town Assets

1. At yesterday afternoon's seminar on Monetary problems, the Prime Minister got on to the question of the sale of New Town assets as one way of reducing the need to sell energy assets. She said that she would chase the matter herself but suggested that I, too, might have a look at it. I have done some rapid ferreting this morning and the results may be of interest as background for the Prime Minister's own enquiries.

2. The assets under discussion are the commercial and industrial properties owned by the various 'New Towns'. We are not talking about their residential property. That is already being sold off reasonably rapidly to sitting tenants, but the point is that such sales do very little to help the PSBR because the Government has to lend the tenant the mortgage to finance the sale.

3. The amount of commercial and industrial property which could, in principle, be sold was first estimated at £2 bn. This was a rapid initial estimate, undertaken not by the Department but by an outside consultant and he had insufficient data to work upon. The true figure is much nearer £1 bn.

4. The New Towns are, of course, major borrowers from the National Loans Fund (NLF). For some time they have been financing part of their requirements for new development by selling off some of their existing commercial and industrial property to the sitting tenants. Mr Heseltine's estimate of providing some £70m. of relief to the PSBR without legislation is his guess as to the extent to which he could 'twist the arms' of the

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Chairmen of New Town Corporations to speed up this process and hence reduce their borrowings from the NLF. His ability to do this is confined to New Towns which are still in the process of expansion. 'Old' New Towns which have virtually completed their programmes are much better able to resist such pressures.

5. To go beyond the £70m. would require legislation so that the Government could go beyond 'arm twisting' and deal with both 'new' New Towns and 'old' New Towns. But the bottleneck then becomes a different one: the speed at which one can negotiate with the sitting tenants. The Leases are inevitably complex and varied. Some of the sitting tenants were given very generous Leases to attract them in to the town so that the organic development of the town could be achieved. Some of the sitting tenants would not wish to purchase the freehold and external buyers would need to be looked for, and the complications of selling a property where the Lease had these 'social considerations' built in to it are obvious. It is anybody's guess how much more than £70m. could be shifted over the next nine months but, say, £200m. might be a reasonable 'off-the-cuff' figure.

6. An alternative to dealing with it property-by-property would be to try to sell enormous blocks, not to the sitting tenants, but to some outside consortium of pension funds or insurance companies. The snags here are that some of the Leases do give the sitting tenant the right of first refusal; that it would be impossible to have any 'small man' element in such an approach (except to the extent to which the 'small man' has his savings in pension funds); and that the price obtained by such a block approach might well not be as good as attempting individual sales and negotiating on the particular circumstances of each case.

7. Lastly, my information is that Mr Heseltine has himself been putting a great deal of steam behind all this and is doing his best to go faster and further than many of his officials would prefer.

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8. I should emphasise that the above is the result of a very rapid enquiry. It is almost certainly not accurate in every detail but I thought the Prime Minister might prefer to have something rough but immediate as background for her own approaches.

9. I am sending a copy of this minute to Sir John Hunt.

KB

19 July 1979



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