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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON DISPOSAL OF PUBLIC SECTOR ASSETS

MINUTES of a Meeting held in Conference Room A, Cabinet Office on TUESDAY 5 JUNE 1979 at 9.00 am

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PRESENT

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
(In the Chair)

The Rt Hon Peter Walker MP
Minister of Agriculture
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

Mr Nigel Lawson MP
Financial Secretary, Treasury

ALSO PRESENT

The Hon Adam Butler MP
Minister of State
Department of Industry

SECRETARIAT

Mr P Mountfield
Mr G D Miles
Mr A S D Whybrow

SUBJECT

DISPOSAL OF PUBLIC SECTOR TRADING ASSETS

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DISPOSALS OF PUBLIC SECTOR TRADING ASSETS

The Sub-Committee had before them a memorandum by the Financial Secretary, Treasury (E(DL)(79) 2) about a package of sales of public sector assets to raise £1.2 billion in the current financial year.

THE FINANCIAL SECRETARY, TREASURY, said that Cabinet had agreed on 31 May (CC(79) 4th Conclusions, Item 5) that sales of public sector shares and other assets worth £1.2 billion in 1979/80 should be made as one element in the Budget. He now sought the Sub-Committee's approval to a package of sales to achieve this total, consisting of 4 elements: shares in British Petroleum (BP) to realise £600 million; shareholdings currently held by the National Enterprise Board (NEB) to realise £100 million; the oil interests of the British Gas Corporation (BGC) to realise at least £200 million; and selected oil interests now held by the British National Oil Corporation (BNOC) to realise £300 million. The package had a number of advantages. It achieved the right total, and it would not require special legislation. Over half the package consisted of quoted shares, but the oil interests could be disposed of by sales eg to oil companies if this was considered desirable in order to avoid over-loading the stock market. The package was generally consistent with the Government's objectives of widening share ownership and in due course of selling equities in some of the nationalised industries to the public and employees. The proposed sale of BP shares would reduce the Government's stake in the company from 51 per cent to 35 per cent, of which 20 per cent consisted of shares held by the Bank of England which were the subject of litigation. The remaining 15 per cent holding was the minimum consistent with the existing constitution of the company, including the appointment of two Government directors to the board. If the Sub-Committee agreed to the package, the Chancellor would include in his Budget speech a passage on the lines of that annexed to E(DL)(79) 2, and a number of detailed decisions would be needed after the Budget on the form and method of sales.

In discussion of the 4 elements in the package, the following main points were made -

a. BP shares, £600 million. The sale of these shares was not expected to raise any particular problems, though a number of detailed decisions would be needed about the form of the disposal.

b. NEB shareholdings, £100 million. The NEB had the power to dispose of shareholdings, and it should be possible to raise the sum required by sales of shares in companies already quoted on the Stock Exchange, such as ICL and Ferranti. However, the Chairman of the NEB, Sir Leslie Murphy, might argue that sales of this amount of shares in profitable companies would be incompatible with the NEB's statutory financial duty. This objection could be over-ridden by including suitable provisions in the Industry Bill already planned for introduction in the current Parliamentary session. However, the Industry Bill might not receive Royal Assent in time for the disposals to take place this financial year. In addition, it was unlikely that disposals made by a reluctant Chairman would achieve the best possible price. There was therefore a case for appointing a more willing Chairman, rather than relying on compulsion through the Industry Bill.

c. BGC oil interests, at least £200 million. The Secretary of State for Energy had power under the Gas Act 1972 to direct the BGC to dispose of assets not required for their statutory functions. However, the Chairman of the BGC, Sir Denis Rooke, had indicated to the Secretary of State that he regarded the BGC's oil interests as essential to their ability to supply gas in the medium to long term, and that he would oppose a direction to dispose of them. There was some doubt over the Secretary of State's legal rights in these circumstances. However, whatever the legal position, the imposition by the Government of a forced sale against the Chairman's will would cause a major row with the BGC board, and there could be no guarantee that the sale would go through in the current financial year. Even if it did, the row with the board could slow down progress on selling shares in the BGC to corporation employees and the public, on which the Chairman had agreed to produce proposals. The Chairman had offered to find politically acceptable savings of £100 million this year without raising prices, if the Government would withdraw its proposals for the sale of the oil interests.

d. BNOC oil interests, £300 million. The required sum could be raised by selling about three quarters of BNOC's stake in the Ninian field which had been acquired from the Burmah Oil Company in 1976. This disposal was likely to be consistent with other aspects of the

Government's developing policy towards BNOC, and it was highly desirable to make an early start on the sale, but it was not possible to guarantee that the sale would be completed this financial year. It would however be possible to bring forward into this financial year exchequer receipts from BNOC royalties, by taking them in kind. The process would need to be continued in future years, as there would be a corresponding shortfall if the process were reversed. The once-for-all gain was estimated by Department of Energy officials as £150 million and by Treasury officials as £90-£120 million. It might also be possible to increase the Government's oil-related revenue in the current financial year in other ways, for example by a further round of exploration licensing, or by arranging for BNOC to sell off some of their existing licenses.

In discussion of the BGC's oil interests, it was argued that the Government ought not to bargain with a nationalised industry in the way that the Chairman seemed to envisage. On the other hand it was argued that the Government's interests would best be served by avoiding an open confrontation with the BGC board at this stage. It was suggested that the Secretary of State for Energy might find out from the Chairman precisely what proposals he had in mind for achieving £100 million savings, and that if these were satisfactory the Government might be prepared to postpone any decision on the sale of the BGC's oil interests, though there could be no question of giving the BGC any permanent assurance that they could retain these interests. It would be desirable to have a formal opinion from the Law Officers as to whether a direction to the BGC to dispose of these interests would be valid without further legislation if opposed by the board. When the Chairman had revealed his proposals, the Chief Secretary, Treasury, would need to consider what effect they would have on the Public Sector Borrowing Requirement (PSBR) both this year and next. There was no point in achieving a saving this year at the price of a corresponding excess next year.

In general discussion, it was strongly argued that the method of disposing of assets this year should reflect the pattern which the Government intended to adopt for future years, by making generous provision for the purchase of shares by employees and by encouraging the widespread ownership of shares as far as this was compatible with obtaining a reasonable price for them. This meant that the Government should consider selling the BNOC oil interests to employees and the public, rather than selling only to other oil companies. Care would however be needed in the placement of the NEB's shareholdings, as some of these would represent a relatively high risk investment.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion, said that the Sub-Committee agreed that the Financial Secretary, Treasury, should proceed with preparations for the sale of BP shares, and that the Secretary of State for Industry should proceed with preparations for the sale of certain NEB shareholdings, with a view to raising £600 million and £100 million respectively in the current financial year. He would take credit for these sums in his Budget calculations. The Sub-Committee also agreed that the Secretary of State for Energy should make preparations for the sale of certain BNOC oil interests, estimated to realise £300 million, but had noted that it might not be possible to raise this sum in the current financial year. They had agreed that the Government should take royalties from BNOC in kind, bringing forward Exchequer revenue of between £90 million and £150 million to the current financial year. The Secretary of State for Energy should arrange for his officials to agree a more precise estimate with Treasury officials and he would take credit for the agreed amount in his Budget. The Secretary of State for Energy should also explore urgently other possibilities for raising money during the current financial year, including the possibility of another round of offshore oil licensing and of arranging for BNOC to sell some of their existing licences, and should inform him by the morning of Thursday 7 June of his estimate of the total which might be raised. On the proposal to sell BGC's oil interests, the Secretary of State for Energy should seek a formal opinion from the Law Officers on whether a direction to this effect would be valid without further legislation. He should explore further with the Chairman the contents of the £100 million package which had been offered and should consult the Chief Secretary, Treasury, about the acceptability of these proposals given the objective of reducing the PSBR in 1979-80 and in later years. He should try to increase the short-term package as far as possible above £100 million, and should inform him by the morning of 7 June on the results of his discussions. He should make clear to the Chairman that the Government was not prepared to bargain these short-term cuts in exchange for any promise of immunity from longer-term disposals. The Secretary of State for the Environment should inform him by the morning of 7 June of the sum which it would be possible to raise in the current financial

year by sensible sales of public sector land and buildings. He would then reconsider his Budget arithmetic in the light of these reports from his colleagues. His Budget Speech would specify the grand total to be achieved and would mention the proposals to sell BP shares and NEB shareholdings, though without the individual total for each, and would refer to other proposals for sales in more general terms. The Sub-Committee considered it important that the initial disposals should establish the pattern which the Government wanted to achieve throughout its programme of disposals, of selling holdings to the widest possible range of people, particularly including employees of the business concerned, consistently with obtaining a reasonable price for the assets. The Secretaries of State for Industry, the Environment, and Energy, should put any ideas they had on this subject to the Financial Secretary, Treasury, by 11 June. The Financial Secretary should then prepare two papers for the Sub-Committee, one on the options for securing widespread ownership from this financial year's disposals, which the Sub-Committee would wish to consider within the next two weeks, and one on the options for achieving widespread ownership in relation to the later disposals, which could be considered at a later date. The second paper should examine the case for and against an omnibus enabling Bill. The Secretary of State for the Environment should circulate a further paper in due course about the longer-term disposal of public sector land and buildings.

The Sub-Committee -

Took note, with approval, of the Chancellor of the Exchequer's summing up of their discussion, and invited the Secretaries of State for Industry, the Environment, and Energy, the Chief Secretary, Treasury, and the Financial Secretary, Treasury, to be guided accordingly.

Cabinet Office

5 June 1979