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DEPARTMENT OF TRANSPORT
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20 June 1979

Nigel Lawson

Your letter to Keith Joseph of 19 June asked for estimates of sums likely to be realised in 1980/81 and later years from sales of public sector assets.

The one contribution which I can offer at this stage is the selling of shares in NFC. My present intention is to seek powers in the present Parliamentary session to establish NFC as a Companies Act company, and then offer equity shares for sale. I envisage that the offer would not be made until mid-1981 (thus allowing the offer to be made on the basis of the 1980 trading results). On the assumption that the Corporation continue to improve their trading performance between now and then, the market valuation of the equity at that stage might be of the order of £60m. Against this we should make allowance for the deficiency in the pension funds, possibly £25m. So for the present exercise I suggest that you assume £35m in 1981/82. This assumes that we dispose of 100% of the equity. I would

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stress that this is a very provisional figure, since we have not yet taken advice in the City, and in particular it makes the key assumption that the Corporation manage to improve their net profit by about £10m from 1978 to 1980.

The National Bus Company is loss making, and most of the individual companies depend on a considerable degree of support from County Councils, so that I do not think this would be an attractive proposition for private investors. (I am, of course, as a quite separate exercise proposing to relax the present licensing provisions, with the intention of making it easier for new private firms to run profitable bus services.) Turning to the Railways Board, the rail freight business is of only very marginal profitability, and the passenger services are heavily loss making, and totally dependent on public support to enable them to continue. I cannot see, therefore, that there can be a question of getting private money into the main stream rail business. I would also be against breaking up the British Railways Board by attempting to sell off individual profitable subsidiaries such as Sealink, since this would undoubtedly cause a strike costing around £4m a day. Such a loss would probably more than counter-balance any receipts from sales. A BP type solution in respect of Sealink or the Hotels Company seems a more hopeful way to proceed, and I am pursuing this. But I am sure that it is bound to take time if we are not to face industrial troubles.

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Proceeds from the sales of surplus railway land are already taken into account in the Board's financial projections, on which their borrowing requirements and cash limits are based. I hope that recent changes will enable the Board to accelerate this programme, but I have not yet been able to discuss with them just what may prove practicable.

Finally, there is the British Transport Docks Board. Although many of their ports are profitable, here again there could be strike problems if we attempted to sell off individual ports. I am, however, looking at possibilities further, and at least there should be scope for realising more cash from the Board than they are at present providing through their repayment of NLF debt. I hope I may be able to let you have more specific proposals later.

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

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