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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, *TREASURY*

1. The White Paper on the Government's Expenditure Plans 1980/81 (Cmnd 7746) said that the target for disposals of public sector assets which would reduce the public sector borrowing requirement next year was £ $\frac{1}{2}$  billion. As the Chancellor pointed out in his Budget Speech:

"... 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."

2. We now need to make plans and take decisions on a sufficient scale to ensure that by the time of the 1980 Budget we can rely on achieving this target. In this paper I take stock of the position and ask my colleagues to bring forward firm proposals to the Committee in January or February. I accept the importance of settling the timing of sales in a way that will realise the true worth of the assets concerned. But it is also important that we should, as a minimum, achieve the target we have set for proceeds next year. If we were to fail, we would have to make larger cuts in public expenditure or to raise taxes to a higher level than would otherwise be necessary.

1979/80

3. Disposals for this year are listed in Table 1. Almost all the items in it are achieved or reliable. But it is uncertain whether the full programme of NEB's disposals (following the general fall in share prices this now seems likely to be worth about £85 million rather than the £100 million previously assumed) will be achieved, although it is now assumed that the Industry Bill will receive Royal Assent a few days before the end of the financial year.

4. We shall, however, achieve the target for 1979/80 since proceeds will be at least £1,100 million. Over half the proceeds this year have in the event come from advance payments for BNOC's oil. This expedient will not make any contribution

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to our target for next year. On the other hand we now have a good deal more time. Discussions of the possibilities have been going on since the early summer and we still have 15 months to go whereas at the time of the 1979 Budget there were only 9 months of the financial year left. We must use the time to make large enough plans to allow for the risk of slippage on individual items.

1980/81

5. For 1980/81 about £300 million is reasonably firm: Part (a) of Table 2 includes New Towns, British Aerospace and Motorway Service Areas, though even here the precise figures are uncertain. The Annex contains notes on these and on other sizeable items in Table 2.

6. Much greater uncertainty attaches to the other items in Parts (b) & (c) of Table 2. In particular the prospects for securing anything in 1980/81 from BNOC are far from certain and in view of the amount at stake, it would be prudent to assume for planning purposes that receipts slip into the following year.

7. If the disposals in para 5 above go ahead, there would be a gap of about £200 million to fill before the target could be achieved. It would not be safe to rely on the items in Part (b) of Table 2 to fill it. The Annex explains that the Cable & Wireless Board is opposed to the sale of shares in the Hong Kong subsidiary and that the Secretary of State for Industry would want BSC to draw on the proceeds of disposals rather than agree either to fund its losses or enlarge its cash limit. There are no firm plans yet for disposals of shares in the Radiochemical Centre or in NCB's subsidiary Sankey. But supposing these and Cable & Wireless go ahead, and that about half of the NEB sales planned for 1979/80 slip into 1980/81, these items might yield up to £170 million without taking credit for net disposals by BSC. But if Cable & Wireless does not go ahead and the NEB 1979/80 disposals do not slip, the contribution from this group could be over £100 million less i.e. about £50 million.

8. All this suggests that to be sure of achieving the target we will need a contribution from hydrocarbon assets other than BNOC. The Annex mentions BGC's interest in the Wytch Farm onshore oilfield and the Secretary of State's ideas about mixed finance for BGC as an "alternative contribution" to the 1980/81 PSBR objective. I understand a further contribution could come from the proceeds of auctioning 7th Round Licences in the North Sea which are due to be issued next year.

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Conclusions

9. I recommend the Committee:

- a) to note that there remains a gap of about £200 million between the reasonably firm plans so far made and our published target of £500 million for 1980/81 disposals and to agree that urgent progress should now be made so that we can be confident by the time of the Budget that this gap will be filled; and
- b) to invite the responsible Secretaries of State to bring forward firm proposals early in the New Year on the items which have not already been considered by the Committee including Motorway Service Areas, Cable and Wireless, Radiochemical Centre, Sankey and other NCB subsidiaries, BGC and the possible sale of North Sea licences.

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TABLE 1

1979/80 Disposals

£ million at 1979/80 Outturn Prices

BP shares	283
BNOC advance payment for oil sales	600
New Towns	120
Suez Finance Company shares	22
British Steel's shareholdings & property	15
PSA	5
Regional Water Authorities	3
NEB's shareholdings	35-85
British Sugar shares	20

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Other disposals

NEB's shareholdings

British Steel's shareholdings

Cable & Wireless shareholdings in

Long Long subsidiary

Radiological Centre

NEB's shares in Enbury

Disposals

BNOC ("Operational") shares 1979

BNOC (operated in 1979 from 1978)

or "Alternative" disposals

TABLE 2

1980/81 Disposals

£ million at 1979/80 Outturn Prices

a)	<u>Fairly firm</u>	
	New Towns (in England & Wales)	150
	(in Scotland)	5
	British Aerospace shares (about 50%)	100
	Motorway Service Areas	40-50
	Market Towers	15
	PSA	4
		<hr/>
		314-324
b)	<u>Other (non-hydrocarbon)</u>	
	NEB's shareholdings	25-75
	British Steel's shareholdings	0-50
	Cable & Wireless shareholding in Hong Kong subsidiary	65
	Radiochemical Centre	20
	NCB's shares in Sankey	10-20
		<hr/>
		120-230
c)	<u>Hydrocarbons</u>	
	BNOG ("Operating") shares (25%)	225
	BGC (interest in Wytch Farm oilfield or "alternative contribution")	say, 100
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		325

DISPOSALS IN 1979/80 & 1980/81

British Sugar Corporation

1. The sale does not require legislation and it has been agreed that it will take place before the end of 1979/80. The expectation that it could raise £20 million shown in Table 1 assumes sale to several buyers. Sale to a single buyer might raise somewhat more, but this option raises wider policy questions. A submission has been made by MAFF officials to their Minister, following which he will no doubt be making proposals to his colleagues.

National Enterprise Board

2. It is essential to have Royal Assent to the Industry Bill before the end of the financial year to put beyond doubt the statutory authority for all of the proposed £100 million disposals in the financial year. On present plans this should be achieved but even so the quoted value of the most saleable holdings has fallen since August and the total yield could well be in the order of £85 million cash rather than £100 million. In the meantime, the new National Enterprise Board has been asked to make all possible progress towards making the disposals in time. It is assumed that a further £50 million disposals would be made over 1980/82, of which up to £25 million would be in 1980/81. These figures could be on the high side since they depend on selling assets less marketable than those on which the 1979/80 figures were based. But they could be on the low side if the sales planned for 1979/80 slip into 1980/81; the range in Table 2 reflects this.

New Towns

3. In E(DL)(79)17 the Secretary of State for the Environment offered £125 million from the English New Towns towards the disposals target in 1980/81. Table 2 is nevertheless based on the Treasury view that £150 million should be made available. The disposals programme currently depends on the cooperation of the New Town Development Corporations, which probably would not be sustained indefinitely without legislation. The Local Government Planning & Land Bill contains provisions enabling the Secretary of State to order the disposal of assets. The Bill is unlikely to become law before summer 1980 but receipts in 1979/80 & 1980/81 are not thought to be at risk. The amount of the English New Towns' contribution in 1980/81 still has to be settled and the expected contribution of about £5 million from the Scottish New Towns, in Part (b) of Table 2, needs to be confirmed.

British Aerospace

4. The proceeds from the disposal of about half of British Aerospace shares are estimated at approximately £100 million. This figure is based on analysis of

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past and projected profits; projected cash flow; actual book assets; and on an assumption of a sale of approximately half of the shares of BAe Limited. It is, however, subject to a wide margin of error since the enthusiasm of the market for BAe shares, and the exact proportion of shares to be sold, remain uncertain factors. The Secretary of State for Industry announced plans for the de-nationalisation of BAe in Parliament on 23 July; he brought the British Aerospace Bill before Parliament for its Second Reading on 20 November; and the Bill is now in Committee. The speed of its future progress is difficult to assess, but it is still hoped that it will receive Royal Assent by May. Disposal of BAe shares is planned to take place in June, but if for any reason this date were missed or thought unpropitious, another opportunity for flotation could arise towards the end of the year.

#### Motorway Service Areas

5. This relates to the proposal, initiated by the Minister of Transport and announced by him on 23 October, that he would open discussions with operators of motorway service areas on the basis of an offer for sale, on new long leases, of the major part of the Government's interest in the service areas on English motorways. Negotiations are at an early stage and estimates of both timing and amount are necessarily speculative. The estimate of £40-£50 million is based on a preliminary valuation which is, at present, being verified. More detailed estimates should be brought before E(DL) Committee early in the New Year. Realisation of the full amount of the disposals and their timing will depend on the response to the Minister of Transport's offer and the speed of negotiations. For the moment however it has been assumed that a large proportion of the disposals will be achieved in 1980/81. No legislation will be required.

#### Market Towers

6. The Market Towers office block is owned by the Covent Garden Market Authority and their consent is required if it is to be sold without legislation. They have agreed to sell on certain conditions, the precise implications of which are being explored with them. It seems probable but not certain that the sale can be made in 1980/81 and it should realise a net £15 million at 1979 outturn prices.

#### Cable & Wireless Limited

7. Department of Industry Ministers endorse a two-stage operation, entailing the sale of shares first in the major Hong Kong subsidiary and later in the main Company. The advantages are that the Government stand to get more by this route; that the Hong Kong government will welcome it and take a favourable attitude to renewing the Cable & Wireless concession (which expires in 1987); and that a Hong

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Kong sale does not need legislation, while the sale of shares in the main Company does - and a Bill cannot be introduced before the 1980/81 Session. However, the present Board are unanimously opposed to a Hong Kong issue. Department of Industry Ministers envisage that the appointment of a new Chairman (which is in hand but not yet settled) will lead to a solution of this problem. But this cannot yet be relied on. Assuming a two-stage operation, the proceeds from the disposal of Cable & Wireless shares will come in 3 annual tranches, £65 million in 1980/81, £100 million in 1981/82 and £50 million in 1982/83 - the last figure assuming, rather speculatively, that sales in the main Company can be taken beyond the 30% recommended by Barings.

#### British Steel Corporation

8. The figure for BSC disposals in 1980/81 is particularly speculative, since the Corporation's first call on any funds realised through sales of assets will be to offset operating losses which BSC is likely to incur at least in the first half of 1980/81 and which the Secretary of State has said he will not finance. If the proceeds of disposals are used in this way, there would in principle be a case for reducing the cash limit. But in practice, though no such case has yet been made out, BSC may not be able to stay within its external financing limit for 1980/81 of £450 million without using some or all of the proceeds, given cost of redundancies entailed by the recent proposals for closures and de-manning in 1980/81. The wide range in Table 2(b) reflects this.

9. The main candidates for disposal in that year consist of shareholdings in the old Commonwealth and in BSC (Chemicals) Limited; BSC are also reviewing their majority and minority shareholdings in over 100 companies making a wide range of steel and associated products. The Department are pressing BSC to do the utmost possible to help not only with the cash limit problem, but if possible with the Government's asset disposal target as well.

10. As a last resort, the Secretary of State has power to direct the Board to dispose of activities outside iron and steel which are carried on in Great Britain; but no power in respect of main line activities. At present, no such power seems to be needed; and there is no action to be taken beyond what is already in hand.

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NATIONAL COAL BOARD SUBSIDIARIES

11. The Secretary of State for Energy has undertaken to consider the possibility of the NCB disposing of its interest in J H Sankey & Son Ltd. The NCB, which would almost certainly oppose the sale, has a 60 per cent interest in the company and the proceeds of disposal might amount very roughly to between £10m and £20m. The proceeds of the sale would be received by the Board and it would therefore be necessary to reduce their external financing limit by the amount of the sale if public expenditure is to be reduced. The Law Officers have confirmed that the powers in Section 7 of the Coal Industry Act 1971 could be used to direct the Board to dispose of Sankeys (and probably any other NCB subsidiaries which are far removed from the main function of coal mining and supply). Sankeys is clearly a prime candidate for disposal in 1980-81. The first step might therefore be for the Secretary of State to pursue this quickly with the NCB together with the possible disposal of other NCB interests and to report to the Committee.

THE RADIOCHEMICAL CENTRE LIMITED (TRC)

12. The Secretary of State for Energy has asked that there should be active exploration of the possibilities of selling in 1980-81 some or all of TRC, which is effectively 100 per cent owned by the Government. The Attorney General has advised that any sale of the Government's interest, even one of 49 per cent, would require legislation. Ideally this should be in a separate bill in view of the risks of hybridity. The TRC Board believe that the earliest practical date for the disposal of 49 per cent is Autumn 1980 and that 100 per cent disposal would need to wait until 1981. Depending on the proportion of the company sold, proceeds could vary between say, £10m and £30m (for 100 per cent sale). The Committee might consider a paper on disposal of the Company.

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BNOC

13. Sales of shares in BNOC could raise £500m-£1bn (and perhaps more) depending on Ministers' decisions on the amount sold, stock market conditions and the markets being satisfied that the new company is commercially independent of Government. Sales at the higher end of the range would probably require shares to be sold in tranches over a number of years. The achievement of any proceeds in 1980-81 depends on a decision to go ahead being taken now so that the necessary legislation (which will be contentious) can be enacted this Session, and the complicated process of asset transfers in preparation for the issue can be completed in time. Whether the proceeds would reduce (as distinct from finance) the PSBR depends on Ministers' decisions on the new company's relationship with the public sector. Ministers are already considering this question.

BGC

14. The Secretary of State for Energy is unwilling to give a specific undertaking to dispose of BGC's interest in the Wytch Farm onshore oil field because of uncertainties about its valuation and because such a commitment could pre-empt the outcome of his current study of BGC's activities and make the Corporation less likely to co-operate in any wider plans for its future. Rough estimates value BGC's share in this oil field at £100m. Legislation might be necessary to secure the sale against BGC's likely opposition; powers could be included in the forthcoming Petroleum and Submarine Pipelines (Amendment) Bill. The Committee might consider a paper on disposal of BGC's interest in the oil field and on Mr Howell's ideas about "mixed finance" for BGC as an "alternative contribution" to the PSBR objective for 1980-81.

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