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E(DL)(79) 5th Meeting

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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
THURSDAY 26 JULY 1979 at 9.50 am

PRESENT

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

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon George Younger MP
Secretary of State for Scotland
(Items 1 and 2)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Items 1 and 2)

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
(Items 1 and 2)

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The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science
(Items 1 and 2)

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Lord Mackay of Clashfern QC
Lord Advocate

The Rt Hon Norman Fowler MP
Minister of Transport

Lord Strathcona
Minister of State
Ministry of Defence
(Items 1 and 2)

SECRETARIAT

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

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1. DISPOSALS IN 1978-79

THE CHANCELLOR OF THE EXCHEQUER said that since discussions on disposals had also been taking place in E Committee, the Sub-Committee might like to be reminded of the present position with regard to expected disposals for 1978-79. £100 million was envisaged for NEB disposals, for which legislation would be provided in the Industry Bill. £80 million would come from miscellaneous minor items, including land, Suez Canal shares, market Towers, British Sugar Corporation. £70 million would come from New Towns, and £50 million from The Radiochemical Centre (TRC). If legislation was required to achieve the latter sale, it should also be incorporated in the Industry Bill. In addition to these items, a further trawl was being undertaken of Government and nationalised industry property, and the Prime Minister had requested an examination of the possibility of further sales of New Town property. E Committee had agreed that progress on all these sales should be reported to them in September, together with progress on sales totalling £400 million from BGC and BNOC assets. In the light of that information E Committee would then decide whether, and if so how many, BP shares should be sold during the current year.

The Sub-Committee -

Took note of this statement of the work in progress; and approved the preparation of legislation if this proved necessary for the disposal of shares in The Radiochemical Centre.

2. DISPOSAL OF SURPLUS LAND AND BUILDINGS IN THE PUBLIC SECTOR

The Sub-Committee had before them a memorandum by the Secretary of State for the Environment (E(DL)(79) 10) which made proposals for a new approach to ensuring the disposal of surplus public land and buildings.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that vast areas of land were not being put to effective use, because they were retained by various public bodies, including local authorities, nationalised industries, and the Government Departments. This was particularly noticeable in inner areas of cities, and while each public body was left free to make decisions on disposals in the light of its own interests, there was little likelihood of substantial change. He believed that the land should be released for more productive use, and that new powers would be needed to ensure this. He proposed that the territorial Secretaries of State should be given power to direct the disposal by sale of particular public interests in land, subject to suitable safeguards to ensure that the existing owner had an opportunity to argue for its retention. In order to ensure that potential developers were aware of the land that might be disposed of under these powers, he proposed that there should be a register, maintained by local authorities, and open to public inspection. The register would cover land and buildings not in full beneficial use, and owned by public bodies (including Crown land on a voluntary basis). However the powers to require a register could be applied specifically to particular geographical areas of the country, and the size of parcel of land to be included could be specified. Thus it would be possible to try out the register on an experimental basis, before it was decided whether to adopt it universally. He believed that only by a radical new approach of this kind would this longstanding and deep-seated problem be cracked.

In discussion there was general agreement that there was a major problem of under-use of public land. However it was argued that the proposals in the paper had a number of disadvantages. In the first place they might be seen to run counter to the general policies of freeing local authorities

from controls, and of standing aside from the management of nationalised industries, once appropriate financial targets and cash limits had been set. There was a danger that the compilation of the register would add to bureaucracy, at a time when the Government wished to apply pressure in a reverse direction. Departments dealing with nationalised industries already had opportunities to press them to release surplus land, and appropriate allowance for disposals could be built into the targets which were set for the industries.

Against that, it was argued that the work of maintaining a register would be relatively small, and could be minimised, particularly in the first instance, by adopting the experimental approach, and limiting the areas, and sizes of parcel of land to which the register would apply. The register could provide the basis for local debate, which would be important in encouraging the release of land, and it would for the first time allow local authorities to challenge the land holdings of nationalised industries. In this way the proposals might well find a welcome from local authorities, in spite of the Ministerial power to direct the sale of local authority land. There could be a "carrot" element to the scheme as well as a "stick": NHS experience had shown that authorities would dispose of land, provided suitable incentives were given in relation to their own objectives. But it was also important to ensure that some part of the proceeds of disposals were used to reduce ^{the public sector borrowing requirement} public expenditure, and not diverted to finance ^{other} projects. This aspect should be further explored in relation to nationalised industries. The planning procedures, and the need for a "change of use" also seemed sometimes to be an obstacle to the effective use of land, and these should be further examined.

THE CHANCELLOR OF THE EXCHEQUER summing up the discussion, said that the Sub-Committee were agreed that a major effort was desirable to encourage a more productive use of public land. Ministers should press this in their own Departmental dealings, and in their relationships with the nationalised industries which they sponsored. The Sub-Committee also agreed with the principle that the territorial Secretaries of State should be granted a power to direct the sale of public land. This would apply whether or not the existing holding of the land had been challenged by a third party.

It was agreed that the idea of a register should be pursued experimentally in the first instance, and so the necessary powers should be drafted to allow its application in selected areas and selected sizes of site. The Sub-Committee had noted that separate legislation would probably be needed to give effect to proposals of this kind for Scotland. The Secretary of State for the Environment should now arrange for inter-Departmental consultations on the shape of the proposals, including in particular further consideration of the scope for incentives for disposing authorities, in consultation with the Treasury, and the likely shape of legislation needed, in consultation with the Law Officers. When proposals were clearer, the Secretary of State for the Environment, and the Secretary of State for Scotland, should initiate consultations with the local authorities, and nationalised industries. The terms of the approach to nationalised industries should be agreed by the Ministers responsible for sponsoring Departments. In the light of consultations, the Secretary of State for the Environment, and the Secretary of State for Scotland should bring back specific proposals to the Sub-Committee.

The Sub-Committee -

Took note, with approval, of the summing up of their discussion by the Chancellor of the Exchequer, and invited the Ministers concerned to be guided accordingly.

5. DRAKE AND SCULL HOLDINGS LIMITED

The Sub-Committee had before them a memorandum by the Secretary of State for the Environment (E(DL)(79) 13) discussing possible methods for disposing of the Government shareholding in Drake and Scull Holdings Limited.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Company was a firm of mechanical and electrical engineering contractors, in which the previous Government had acquired a shareholding as part of a rescue operation. The Company was now profitable again, and it should be possible to dispose of the Government's shareholding, with a total income of about £800,000, and a capital gain of about £225,000, to the Government. He had examined possible methods of encouraging an employee shareholding in the Company as a result of the sale, and the paper discussed possible courses of action. On balance he concluded that in this case he should recommend a sale without employee participation.

THE CHANCELLOR OF THE EXCHEQUER, summing up a brief, discussion, said that although the Sub-Committee were in general in favour of encouraging an employee shareholding, in this instance the costs of making such an arrangement seemed incommensurate with the likely result. The Sub-Committee therefore agreed that the sale should proceed on the basis of the Course C described in the paper, in which the whole shareholding would be placed with institutional investors.

The Sub-Committee -

Took note, with approval, of the summing up of their discussion by the Chancellor of the Exchequer.

4. SALE OF SHARES IN THE NATIONAL FREIGHT CORPORATION

The Sub-Committee had before them a memorandum by the Minister of Transport (E(DL)(79) 12) discussing proposals for introducing private investment in the National Freight Corporation (NFC).

THE MINISTER OF TRANSPORT said that the NFC was a prime candidate for denationalisation. It provided a variety of services, in competition with the private sector, and constituted about 10 per cent of the road haulage industry. The present proposals were fully supported by the NFC Board. It was intended that legislation should create a Company under the Companies Act to inherit the assets and liabilities of NFC, and with 100 per cent Government shareholding in the first instance. At an appropriate time, it would then be intended to sell most or all of the shareholding. The proceeds of the sale would be offset to a considerable extent by the need to make good deficiencies in the pension fund, but denationalisation was desirable in any case, and would avoid any contingent liability on the part of the Government for the future performance of the NFC.

In discussion it was noted that the proposals would be likely to arouse considerable political controversy, and probably opposition from the unions concerned, the TGWU and NUR. A record of industrial action could make the Companies Act company to be created by legislation more difficult to sell, and there was a risk that Government control would be reduced by the legislation, and yet the discipline of a private shareholding would not be achieved. It would be desirable to have the sale as close as possible to the enactment of the legislation, although the choice of timing of the sale would also be affected by the profit record of the NFC, and by the timing of other public sector disposals which could be competing for investment in the same market.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion said, that the Sub-Committee were agreed that legislation should be prepared on the basis proposed in the paper. The Financial Secretary, Treasury should, as far as was practicable, plan a suitable timetable for the release of all the

public sector disposals onto the market, and in deciding on the operative date for the conversion of the NFC to a private company, the Minister of Transport should consult with the Financial Secretary, Treasury. The aim should be a fairly short period during which the Government had a 100 per cent shareholding.

The Sub-Committee -

Took note, with approval, of the summing up of their discussion by the Chancellor of the Exchequer.

5. DISPOSALS IN 1980-81

The Sub-Committee had before them a memorandum by the Financial Secretary, Treasury (E(DL)(79) 9) discussing proposals for public sector disposals in 1980-81.

THE FINANCIAL SECRETARY, TREASURY said that public expenditure discussions recently undertaken in Cabinet had assumed that at least £500 million would be available from public sector disposals in 1980-81. The Annex to the paper listed those items which had so far been identified. It seemed likely that additional items would be needed to ensure the necessary sum, in particular from land and property and New Towns disposals. Experience in the current year had shown the difficulties of reconciling the need for a specific sum to be achieved to a timetable, and the choice of how, what, and when items should be sold. It was therefore not too early to be aiming for firm targets for 1980-81 disposals.

THE CHANCELLOR OF THE EXCHEQUER summing up a brief discussion said that the Sub-Committee would return to this issue in September. At that meeting all Ministers with items for disposal mentioned in the paper should be ready to report with firm proposals for the specific content and timing. The Sub-Committee would also then consider general guidelines for the financial arrangements appropriate between Government and companies transferred from the public to the private sector.

The Sub-Committee -

Took note, with approval, of the summing up of their discussion by the Chancellor of the Exchequer.

Cabinet Office

27 July 1979