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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

DISPOSALS OF PUBLIC ASSETS IN 1979-80

Memorandum by the Chancellor of the Exchequer

In this paper I review the progress of plans for achieving disposals of public assets in 1979-80 which will reduce the PSBR by £1bn in line with the statement in my Budget Speech. I then ask the Committee to decide whether, in the light of this, BP shares should be sold to make good any shortfall in the overall target, and if so, how many. I also seek the Committee's views on certain practical points about any sale.

2. Disposals other than Oil Assets

Disposals so far agreed are:

	£m
National Enterprise Board	100
British Sugar Corporation	20
Suez Finance Company	20
British Steel Corporation	15
The Radiochemical Centre (sale of all shares)	30
Land etc - England	130
	<u>315</u>

The annex attached describes the preparations in hand for the sale of these assets. In addition some £1m has already been received by the sale of the Government's shareholding in Drake and Scull Holdings Ltd. (No account has been taken of the possible proceeds from the sale of the Covent Garden Market Authority's office block for the reasons described in the annex.)

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3. Following the meeting of the Committee on 24 July (E(79)6th Meeting, Item 1) the Financial Secretary asked Ministers to check whether additional realisations could be made this financial year in order to contribute to the £1bn total. With the exception of the increased disposals of land put forward by the Secretary of State for the Environment and included in paragraph 2 above Ministers have been unable to identify any further scope for asset disposals this financial year.

4. BNOC/BGC Disposals

The Secretary of State for Energy was asked by the Committee (E(79)6th Meeting, Item 1) to arrange for sales of assets by BNOC and BGC which would yield a net £400m in 1979-80. His paper (E(79)36) reports progress.

5. Thus, the total value of assets covered by decisions already taken for disposals in this financial year amount to £715m leaving a balance of £285m to meet the £1bn target which I announced in the Budget. I regard it as essential to our credibility that we should take all the steps within our power to meet our commitments for the PSBR, including the £1bn required from disposals, and the money supply for this year. Both the PSBR and the money supply are currently running high and there is no scope for relaxations if the targets are to be met. In particular there is nothing in the present situation which provides any grounds for hoping that we could meet our PSBR objectives without the £1bn contribution from asset sales which I announced in the Budget. Indeed, this part of the commitment is so clearly within the Central Government's own control, that to fail to meet it would inevitably cast doubts on our own willingness to contribute to the policies we have insisted are right for the country. Nor do I think that we should be justified mid way through the financial year in relaxing the PSBR target for 1979-80; to do so would jeopardise the whole of our fiscal and monetary stance which is central to our economic strategy.

6. I conclude from this that in order to meet the target of £1bn some £285m must be raised by the sale of BP stock. Assuming a stock price of £11.50 (or £2.90 after the proposed stock split) and a sale discount and costs of 10 per cent, this

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would require a sale of some 7 per cent of the Company, reducing the combined Government/Bank holding from 51 per cent to some 44 per cent.

7. The Sale of BP Stock

The whole financial world is now well attuned to the expectation of a sale of a substantial tranche of BP stock. Abandonment of our plans for the sale announced in the Budget would run the risk of being taken as a sign of weakness and indecision. Furthermore, the sale of a substantial tranche of BP stock would not materially affect the Government's relationship with the Company for the following reasons:

(i) Our influence over the operations of BP is in practice not proportional to the size of the Government's stockholding so long as the holding remains above 25 per cent (see (ii) below). Indeed, the essence of the so-called "BP solution" is that the Government does not try to use its stockholding power to secure other non-commercial policy objectives.

(ii) The Government and the Bank's holding taken together will be by far the largest in the Company even with the sale of 7 per cent of the stock in the Company. Moreover, the Government will still retain its historic relationship with BP, based upon the right enshrined in the Articles, to appoint two directors to the Board with a power to veto certain Board resolutions. A 44 per cent holding is well above the 25 per cent holding necessary to block the special resolution needed to alter the Articles. Even if Burmah was successful in its legal action against the Bank of England - and our legal advice is that the claim is unlikely to succeed - and the Bank's 20 per cent holding in the Company had to be returned to Burmah, the Government would still own almost one quarter of the Company. Even though below the 25 per cent strictly necessary to block a special resolution, it should in practice be sufficient to block any alteration to the provisions in the Articles of Association for the appointment of the two Government directors with veto powers.

(iii) BP, as one of the country's foremost industrial enterprises, will always have a strong incentive to do all it can, compatible with

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its contractual obligations, to maintain oil supplies to this country. In any event, since the Government's control of the Company would not materially diminish, the security of this country's oil supplies would not be adversely affected.

8. It is quite impossible to forecast with confidence the movement of the BP stock price in the coming months, let alone over the next few years. But the current stock price reflects the market's own judgement of future price movements and there is no reason why the Government should be in a better position to make an assessment over the next year or so.

9. I therefore conclude that the sale of a substantial tranche of BP stock would not alter our essential relationship with the Company. Nor would it jeopardise the security of national oil supplies. And a failure to go ahead with our announced intention to sell would jeopardise our PSBR objectives and could be taken as a sign of a weak and indecisive Government.

10. The Stock Sale - Practical Points

(i) Timing: I recommend that the sale should take place at the earliest possible date when market circumstances are right. The earliest practical date for the sale is late October/early November. I would propose to settle the precise date in consultation with the Prime Minister.

(ii) Sales Abroad: In the 1977 issue the stock was marketed in London and the USA in order to maximise sale proceeds. Even though the amount of stock on offer this time would be smaller, similar considerations still apply. But since the amount of stock on offer this time would be smaller, I would be content for the marketing to take place only in London if colleagues attached particular importance to this for political reasons, provided they accept that this might reduce the price obtained.

(iii) Preferences: I believe that we should follow the 1977 precedent to the extent of giving the preference in the allotment to small applications and to BP employees. This decision needs to be taken before the offer can proceed since the categories of preference will need to be made clear in the prospectus. The precise degree of preference they are accorded can be determined at the allotment stage in the light of offers received. The Company are already intending to establish schemes to encourage employees to buy the Company's stock and it may be possible to link this in some way to the stock sale. I will want to consider with the Bank of England and BP the case for giving preference to sub-underwriters as happened in 1977.

(iv) The Form of the Issue: A public offering at a fixed price (the procedure in 1977) provides considerable flexibility for giving preferences to favoured classes of applicant. There is considerable difficulty in combining a system of preferences with an offer by tender. I shall be considering the method of issue further with the Bank of England. I believe that the issue should be underwritten as in the 1977 operation, particularly in view of the importance of securing the sale proceeds this financial year.

11. Relationship between BP Stock Sale and Sale of BNOG Assets

BP told us at one stage that they might need a rights issue this financial year to finance any acquisition of assets from BNOG and any subsequent capital expenditure on their development. They also told us, and the Bank of England have confirmed this view, that the market could not take this financial year both a stock sale and a rights issue. However, BP have since confirmed that they could finance a purchase of £400m of BNOG assets without a rights issue this financial year.

12. Recommendations

I ask the Committee -

(i) To note the progress on the sale of assets referred to in paragraph 2;

(ii) To agree that some 7 per cent of BP stock (bringing the combined Government/Bank holding to some 44 per cent) should be sold in order to meet the £1bn asset disposals total announced in the Budget; and

(iii) To endorse the practical aspects of the stock sale referred to in paragraph 10.

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DISPOSALS IN 1979-80

NATIONAL ENTERPRISE BOARD

The Industry Bill will provide additional disposal powers, although the Board's own preliminary view is that they may be able to make one or two disposals in advance of new legislation. On the latter basis the NEB's holdings in ICL and Brown Boveri Kent (worth together about £42m) might be sold at an early date. Ministers have agreed in correspondence that the NEB may place these shares to get the best price. The sale of the Ferranti and Fairey holdings raise more complex defence and industrial issues and further consideration is being given to the disposal options. It seems reasonable to assume, however, that disposal of NEB assets in 1979-80 will realise the full £100m agreed by the Committee.

BRITISH SUGAR CORPORATION

It is agreed that we should sell the Government shareholding in the British Sugar Corporation. The intention is that the sale should be completed in 1979-80 although the Minister of Agriculture wishes to delay the sale until he has completed discussions with the Corporation of the future structure of the industry. At current market prices the shares are worth about £22m. Following consultation with the Bank of England an approach is to be made to Schroder Wagg to clarify the detailed sale options and once this and any corroborating advice has been obtained, ED(L) will be invited to reach a final decision on the timing and the method of sale.

MARKET TOWERS

Disposal of this office block would yield up to £18m. If achieved in 1979-80 £14m of the proceeds would offset expenditure on the Thames Barrier which would otherwise fall on the Contingency Reserve. The Minister of Agriculture is to have a meeting with the Chairman of the Covent Garden Market Authority shortly. Although Ministers favour

a sale, unless the Board agree to it legislation would be needed to reinforce existing disposal powers. Given the legal position, and the practicalities of disposal there must be doubts about the prospects of sale this financial year, although this remains the objective.

SUEZ FINANCE COMPANY

The Government holds nearly 8 per cent of the equity in this French registered company. The Bank of England is taking confidential soundings from a few merchant banks (which have expressed interest in the past in a disposal operation) about the best method of selling the HMG shares. It is not possible to say whether or not disposal will be completed within the current financial year. At current market prices, the Government's holding is worth about £20m. There are no legislative requirements to be met before the shares can be disposed of. The French Government and the Chairman of the Suez Finance Company have been informed in confidence of HMG's intention to sell.

THE BRITISH STEEL CORPORATION

The British Steel Corporation intends to realise £30m in the current financial year from the disposal of assets. Of this, £15m will go to offset the effect on the Corporation this financial year of the delay in payment of Regional Development Grants announced in the Budget and £15m will contribute towards the disposals exercise.

The £30m is expected to accrue from the disposal of a 3 per cent holding in Tube Investments Ltd (£7m), holdings in certain overseas companies (£20m) and 1,800 acres of development land valued at £17m (disposal to take place in stages with receipts of about £3½m expected in the current year). Other disposals will be considered if the proceeds from those above are found to fall short of the required figure. BSC are at the moment taking advice on the best possible timing of, and other questions associated with, the sale of these shares and are preparing the development land for disposal as soon as a favourable opportunity occurs.

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THE RADIOCHEMICAL CENTRE

Ministers have approved the preparation of legislation for the disposal this financial year of the Government's holding in The Radiochemical Centre (TRC) and provisional instructions have been sent to Parliamentary Counsel for inclusion in the Industry Bill to remove, among other things, the statutory bar to the Government selling more than 49 per cent of the voting shares in the Company. The Secretary of State for Energy has told the Chairman of TRC, Sir John Hill, that there is a strong case for the disposal of the whole interest in the Company. Sir John Hill has not yet replied, but the initial reaction is that while the Company would see advantages in introducing a private shareholding, so long as the price is fair, the disposal of the whole of the Government's interest in TRC would raise significantly more problems than the disposal of up to 49 per cent of the shares. They therefore believe that it should be approached with the greatest caution. One practical problem which needs to be considered is TRC's participation in the United Kingdom Atomic Energy Authority's super-annuation schemes. The Department of Energy are pursuing urgently these points and will shortly report to Ministers.

LAND AND OTHER ASSETS

The Secretary of State for the Environment has offered £130m from the sale of land and other public sector assets; ie some £10m from sales of land by the Regional Water Authorities and the Property Services Agency and £120m from the sale of new town industrial and commercial assets. The new town corporations have agreed to make these disposals voluntarily within the terms of existing legislation. Arrangements for the disposals are now in hand and the Department aims to reach the target, albeit demanding, by 31 March 1980.

The Secretaries of State for Scotland and Wales have been asked to consider what contribution they can make from new town disposals this financial year.

The Government's shareholding in Drake and Scull Holdings Ltd has been placed with institutional investors, realising £2½m.

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