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FROM: FINANCIAL SECRETARY
DATE: 18 JULY 1984

PRIME MINISTER

PRIVATISATION PROGRESS REPORT: JULY 1984

It is six months since E(A)(84)2nd Meeting agreed a privatisation programme. You may like to know where we now stand. I attach to this minute summary notes on the present position of individual privatisation candidates, a chart which updates the January action plan, and a table providing details of sales and receipts since 1979.

My overall impression is that we have made fair progress. There have been three major disposals in the last few months - sale of our entire residual shareholding in Associated British Ports, completion of the Wytch Farm disposal, and privatisation of Enterprise Oil. The sale of Jaguar is scheduled to take place at the end of July, BT is being prepared for a November launch, and British Airways for early in 1985.

But some slippages have also become apparent. Collective decisions still remain to be taken on gas and electricity. Legislation, if necessary, to allow the privatisation of airports is not now forecast until 1985-86 and options still have to be settled. Possible delays in the passage of the Ordnance Factories and Military Services Bill could postpone by several months eventual privatisation of the Royal Ordnance Factories. In several other cases such as BNFL, Unipart and CAA Scottish Airports, progress has not been as rapid as we hoped.

More detail is given in the attached summary. Whilst, in sum, we can be reasonably satisfied with developments over the last six months, the need is to maintain - and in a few cases recover - the momentum of the programme.

I have agreed with the Chancellor that, unless you or colleagues wish otherwise, there is no need for an immediate E(A) discussion of the attached report. Nevertheless, I hope that you find it a helpful stock-taking of the present situation. If you agree, I will continue to monitor progress and report again later this year.

I am copying this minute and attachments to E(A) members and Sir Robert Armstrong.

JOHN MOORE

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PRIVATISATION PROGRAMME 1983-84 TO 1987-88

PROGRESS REPORT - JULY 1984

Note by the Treasury

1. ROYAL ORDNANCE FACTORIES

The Bill to incorporate the ROFs and to allow subsequent sale has passed its Commons Third Reading. The Lord President can give no assurance that the Bill will pass through the Lords before the Summer Recess or even before the end of October. But alternative ways of minimising any slippage are being explored. If the Act comes into force immediately it is passed, there is the option of a November incorporation date. Privatisation might then be possible by the beginning of 1986, a slippage from Autumn 1985.

2. BRITISH GAS CORPORATION

The Department of Energy is continuing to examine options for privatising and re-structuring the gas industry. Proposals are expected later in the year. Privatisation of BGC appliance retailing, including showrooms, is now being considered in this wider context.

3. WYTCH FARM

Corporation Tax changes introduced in the 1984 Budget made it impossible to complete the sale of BGC's 50 per cent interest in Wytech Farm by end 1983-84. The Dorset Group were persuaded to increase their bid substantially to reflect Budget changes, and disposal took place in May. An initial payment of £85 million will be followed by a second payment of £130 million when specified production levels are reached, probably in 1987-88.

4. BRITISH NUCLEAR FUELS

Officials in the Department of Energy continue to consider the balance sheet issue in consultation with the Treasury. Original intentions were to submit a paper to E(DL) in mid-1984 to allow a considered view of the privatisation options. This is not now likely until September by which time Ministers should have decided on the options for reducing Sellafield discharges.

/ 5. ELECTRICITY

5. ELECTRICITY

The Department of Energy and Scottish Office are examining options for privatisation and restructuring. Reports, which were due to be submitted to E(A) during the first part of the year, are awaited.

6. ENTERPRISE OIL

The whole of Enterprise's ordinary share capital was offered for sale by tender on 19 June 1984 at a minimum tender price of 185 pence per share. The application list closed on 27 June, and the offer was 66 per cent subscribed. Applications for 49 per cent of the shares on offer were made by the Rio Tinto-Zinc Corporation PLC through a number of nominee companies. In line with the Government's wish to maintain the independence of the company RTZ were allocated only 10 per cent of the offer. This left 73 per cent with the underwriters. The striking price was set at the minimum tender price, giving gross proceeds of £392.2 million (about £380 million net). In the early after-market the shares traded at or around their offer price of £1.00 partly paid.

7. NATIONAL COAL BOARD: NON MINING SUBSIDIARIES

Since E(A)2nd Meeting the sale of the holding in Associated Heating Services has been completed. The sale of Sankeys has been agreed and is proceeding with completion expected around end-August. Other disposals remain feasible in future months.

8. BRITISH LEYLAND

The Jaguar privatisation date has slipped from May to July. The sale of Unipart is also likely to slip from the first into the second quarter of 1985 because of the need to reorganise the company before disposal. BL have proposed privatisation of Land Rover and Leyland Vehicles as a single entity in 1986-87 if the problems of Leyland Trucks can be overcome. Otherwise, they have suggested that separate disposal of Land Rover in 1985 or 1986 should be possible (the E(A) target is early 1985-86). The Government has told BL that it doubts whether Leyland Vehicles/Land Rover is saleable as a single entity and has asked for a study of the prospect of disposing of Leyland Vehicles to another manufacturer. Failing that, studies will be undertaken of the prospects for early separate sales of Land Rover, and the viable parts of Leyland Vehicles. BL have been asked to submit proposals for the privatisation of Austin Rover to a target date of 1987.

/ 9. BRITISH SHIPBUILDERS

9. BRITISH SHIPBUILDERS

The Secretary of State for Trade and Industry has put his proposals on privatisation of Warshipbuilding yards to E(A) Committee. Outcome awaits consideration of prospects for merchant shipbuilding capacity, decisions on placing of MOD orders, and future of Cammell Laird.

10. BRITISH STEEL CORPORATION

Disposal of peripheral activities continues. PED Ltd has now been sold, and Stanton and Staveley Ltd and RGC Offshore Ltd are to be sold later this year. Two seamless tubes joint ventures have been established and the aim remains flotation in 2-3 years time. Little progress has so far been made in investigating the possibility of creating separate Companies Act companies in the main business sector (strip and general steels) as a means of assisting restructuring/privatisation.

11. BRITISH TECHNOLOGY GROUP HOLDINGS

Wholesale Vehicle Finance (WVF) - one of BTG's largest shareholdings - has been disposed of in the last six months for £14.5 million. Agreement in principle has also been reached for a management buy-out of a majority of the equity of Data Recording Instruments (DRI) followed by disposal of the remainder of the BTG holding by 1986. INMOS disposal was tentatively programmed for the first half of this year; agreement in principle has now been reached with Thorn-EMI for sale of the entire BTG holding for £95 million. The sale should be completed very shortly. Plans are at present being considered for the disposal of BTG's shareholding in British Underwater Engineering. The overall aim remains completion of the entire BTG disposal programme by end 1986-87.

12. BRITISH TELECOM

Decisions on capital structure and the price regulation formula were completed on time. The BT Bill received Royal Assent in April and the licence defining BT's duties was published on 26 June. Vesting is expected in early August. The aim is flotation in November.

13. NATIONAL GIROBANK

A paper on National Girobank privatisation will shortly be put to DTI Ministers. Original expectations were that privatisation might be possible in 1986-87. Prospects, if anything, have improved. Legislation to allow privatisation is now considered unnecessary.

/ 14. ROLLS ROYCE

14. ROLLS ROYCE

No developments since January; the earliest date for privatisation on present forecasts remains some time in 1987-88.

15. BRITISH AIRPORTS AUTHORITY

A progress report was made to E(DL) in March. Further options are now being considered by the Secretary of State for Transport who will report back to colleagues in the Autumn. If specific legislation is necessary, this cannot be introduced until the 1985-86 Session.

16. BRITISH AIRWAYS

BA plc was vested on 1 April 1984 with the aim of privatisation early in 1985. The likely success of the BA sale has been increased by improvements to the balance sheet from asset revaluations (aircraft and property) of £130 million and the effect the continuing growth in profits (from £88.6 million in 1982-83 to £214.5 million in 1983-84) has had, both on the balance sheet (via debt repayment) and on the general attraction of the company.

17. BRITISH RAIL (BREL)

The BR Chairman's review of British Rail Engineering Ltd's (BREL) future is expected very shortly and will lead to E(DL) discussion. Any disposals not likely before 1986-87.

18. CIVIL AVIATION AUTHORITY - SCOTTISH AIRPORTS

Disposal in early 1984-85 has slipped because of complications over asset valuation and related subsidies, although sale before the end of the financial year may yet be possible. Department of Transport Ministers intend shortly to write to the CAA setting guidelines for a sale.

19. NATIONAL BUS COMPANY

A White Paper on bus policy and deregulation has now been published as a preliminary to introduction of legislation in the 1984-85 Session. It is intended that NBC should be split into operating subsidiaries for disposal Autumn 1985 onwards.

20. SEALINK UK LTD

The sale of Sealink to a trade buyer should be completed by end-July. Slippage from the earlier targetted spring date has resulted from delays by British Rail in making the necessary preparations for the sale. A number of conditional bids for Sealink

/ have,

have, however, now been received from trade buyers, and one of these bids is acceptable subject to final negotiations. A further bid within the deadline of 20 July is an outside possibility.

21. SHORTS LTD

Ministers have now agreed (in correspondence) Short's Corporate Plan for 1984-85 which contains proposals for the development of the company's future business. The Secretary of State for Northern Ireland has recently written to colleagues proposing that Shorts should be confirmed as a candidate for privatisation and that specialist advisers should be retained to examine the method and timing.

22. SCOTTISH TRANSPORT GROUP

The White Paper on bus policy and deregulation also covers Scottish interests. Legislation next session will allow deregulation of stage carriage services in Great Britain. Privatisation of the Scottish Bus Group to be considered further in light of action on the National Bus Company. The Secretary of State for Scotland has written to STG proposing the sale of MacBrayne Haulage Ltd by the autumn.

(B) RESIDUAL SHAREHOLDINGS

1B. ASSOCIATED BRITISH PORTS

The Government's residual holding of 48.5 per cent of the issued ordinary share capital was sold by tender on 17 April at a striking price of 270 pence per share. Receipts were £52.4 billion gross (£50 million net).

2B. BRITISH AEROSPACE

Settlement of A320 launch aid has cleared the way for disposal of the Government's residual shareholding of 48.4 per cent in one or two tranches. But talks on a possible merger with GEC have intervened and could result in disposal of the Government's entire holding and its replacement by a Special Share. If merger talks are successful, and there is no MMC reference (this would introduce a 6-12 month delay), disposal could be organised by the autumn. If merger talks are unsuccessful, the present plan to reduce the Government holding to 25 per cent by end 1984-85, would not necessarily need to be revised. A further disposal could follow subsequently once adequate notice of the Government's intention had been given and a Special Share created. Alternatively, given a Special Share, the residual shareholding could be sold in a single operation.

/ 3B. BP

3B. BP

No developments since January: no further sale (Government holding 31.7 per cent) is possible before September 1985.

4B. BRITTOIL

The Government's holding of 48.8 per cent of the company is valued at around £550 million and there are no restrictions on timing of future sales. The possibility of a further sale is being investigated.

5B. CABLE AND WIRELESS

No developments since January: no further sale is possible before December 1985. Government residual holding 23.1 per cent.

(C) MISCELLANEOUS CANDIDATES

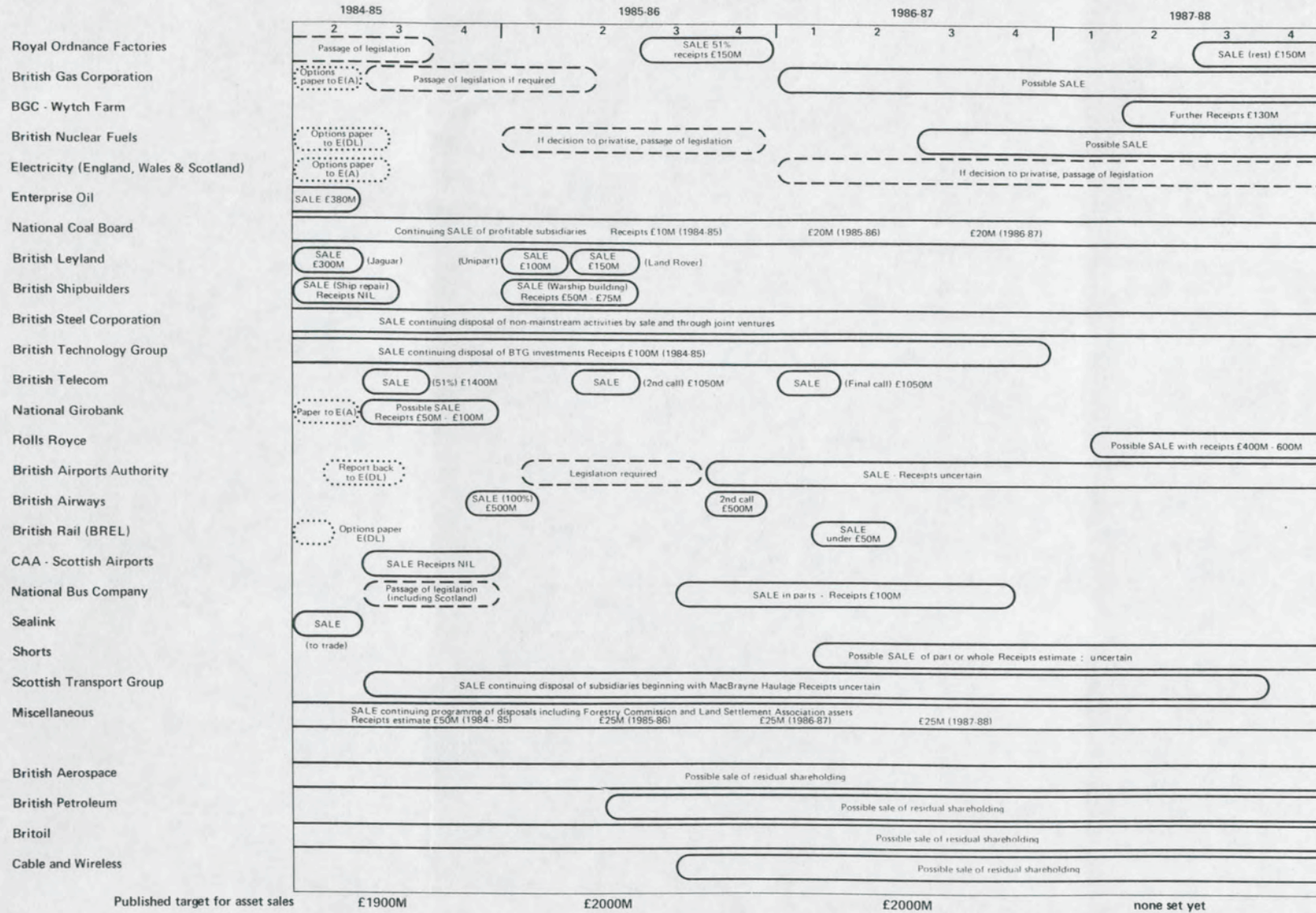
Ministers have decided that Crown Agents should be reorganised with a view to privatisation in due course. The possible timing and method of privatisation remain uncertain. Ministers have accepted that the Horserace Totalisator Board (the Tote) should not be privatised. Further consideration of the possible privatisation of BBC Publications will have to await the outcome of the Office of Fair Trading's current enquiry into broadcasting authorities' practice of refusing licences to others to use copyright over programme schedules.

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HM Treasury

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PRIVATISATION PROGRAMME TO 1987-88



Note
This table shows the best current estimates but in some cases the details are uncertain.
The information should be used with caution

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SPECIAL SALES OF ASSETS1979-80 TO DATE

	£ million					
	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u> <u>to date</u>
AMERSHAM INTERNATIONAL	-	-	64	-	-	-
ASSOCIATED BRITISH PORTS	-	-	-	46	-	50
BRITISH AEROSPACE	-	43	-	-	-	-
BRITISH PETROLEUM	276	-	-	-	543	-
GOVTS NIL-PAID BP RIGHTS	-	-	8	-	-	-
BRITISH SUGAR CORPORATION	-	-	44	-	-	-
BRITOIL	-	-	-	334	293	-
ENTERPRISE OIL	-	-	-	-	-	380
CABLE & WIRELESS	-	-	182	-	263	-
CROWN AGENTS	-	-	7	16	2	-
CWMBRAN DEVT CORPORATION	-	-	-	1	-	-
DRAKE & SCULL HOLDINGS	1	-	-	-	-	-
FORESTRY COMMISSION	-	-	7	14	23	-
LAND SETTLEMENT ASSOC	-	-	-	-	2	-
MOTORWAY LEASES	-	28	19	4	1	-
BRITISH TECHNOLOGY GROUP	37	83	2	-	-	-
NATIONAL FREIGHT COMPANY	-	-	5	-	-	-
NEW TOWN DEVT AGENCY	26	52	73	-	-	-
NORTH SEA OIL LICENCES	-	195	-	33	19	-
PROPERTY SERVICES AGENCY	5	4	1	-	-	-
REGIONAL WATER AUTHORITIES	3	-	-	-	-	-
SALE OF OIL STOCKPILES	-	-	63	33	4	-
SALE OF COMMODITY STOCKS	-	-	19	7	11	-
SUEZ FINANCE COMPANY	22	-	-	-	-	-
SPECIAL SALES OF ASSETS TOTAL	370	405	494	488	1161	430
ADVANCE OIL PAYMENTS	622	-49	-573	-	-	-
STAMP DUTY AND VAT	7	-	-	-	-	-
GRAND TOTAL	999	356	-79	488	1161	430
BGC WYTCH FARM - NON SSA	-	-	-	-	-	82
NCB SUBSIDIARIES	-	-	-	-	7	-
BR SUBSIDIARIES	-	-	-	40	17	-
INTERNATIONAL AERADIO LTD	-	-	-	60	-	-
HMSO GATESHEAD PRESS	-	-	-	-	2	-
TOTAL PRIVATISATION RECEIPTS	999	356	-79	588	1187	512

Notes

1. All figures to the nearest £ million.
2. Figures for the final year are provisional.

198 JUL 1984





10 DOWNING STREET

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From the Private Secretary

Prime Minister ②

I think John's judgement may be rather harsh. On gas, Mr Walker has broached the subject with Sir Denis Rooke but given the controversial nature of his proposals he needs to move carefully.

I doubt if a progress closing meeting will do more than irritate Ministers. Mr Walker feels that the references to BGC privatisation are unhelpful to him in the tricky task he is engaged upon.

No meeting at present
mb.

AT

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PRIME MINISTER

19 July 1984

PRIVATISATION PROGRESS

John Moore's note is a good resumé of where we are.

In practically every case, there has been delay.

The Treasury should be given encouragement to keep up the pressure on reluctant departments. In particular, you should expect much more urgency from the Department of Energy in pursuing the ideas on British Gas following the complex series of meetings earlier this year to settle a policy. You could seek a more active programme of disposals by the National Coal Board, coupled with more private activity in open-cast mining, as part of the strategy for making the Coal Board more economic.

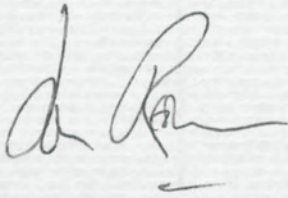
At the DTI, execution of the BL strategy is slow. There is no sense of urgency in pursuing E(A)'s recommendation to sell Leyland Truck and the bus business. We are now halfway through the 3-month period to sort out Land Rover. There is also delay in the restructuring of the British Steel Corporation's subsidiaries.

At Transport, there is disappointing progress with British Rail Engineering.

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I think it would be useful if colleagues, having seen the attached memorandum, were given 10 or 15 minutes to comment on progress at an E(A) meeting. You and the Chancellor could reiterate the need to progress these things quickly; and encourage Ministers to report sometimes that they had beaten deadlines. Delay over BL is particularly worrying.



JOHN REDWOOD

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10 DOWNING STREET

From the Private Secretary

26 June 1984

Privatisation

Since E(A) last considered privatisation in January, significant progress has been made - the sale of Wytch Farm has been completed, Enterprise Oil floated, and Jaguar and Sealink brought close to sale. The BT issue is now only a few months away. The Prime Minister understands that the Treasury is compiling a further progress report and looks forward to seeing this before the Recess.

I am copying this letter to Andrew Hudson (Financial Secretary's Office).

Andrew Turnbull

David Peretz, Esq.,
HM Treasury.

888