

SECRET

Save for Cabinet
on Thu 18

5 November 1985

PRIME MINISTER

ASSET SALES AND THE RESERVE

The tables below show how the figures for future asset sales and the Reserve have changed during this year's public expenditure negotiations.

It is striking that the big increase in asset sales was agreed at the July Cabinet as a result of the decision in April to sell BGC. The BGC sale must not slip as this would throw the figures completely out.

ASSET SALES (£ Billion)

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
January 1985				
Public Expenditure				
White Paper	2.5	2.25	2.25	[2.25]
March 1985				
Budget Statement	2.5	2*	2*	2*
July 1985				
Cabinet Paper	-	4.5	3.5	3.5
November 1985				
Misc 120 Report	-	4.5	4.25	4

* Rounded to the nearest billion.

SECRET

SECRET

The Reserve for next year looks quite tight as the teachers' pay settlement will be a charge on it. But this year's problems have been caused by coal strike costs and we must hope that nothing similar occurs next year.

THE RESERVE (£ Billion)

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
January 1985 Public Expenditure White Paper	3	4	5	-
March 1985 Budget Statement	5	6	7	-
July 1985 Cabinet Paper	-	5	6	7
November 1985 Misc 120 Report	-	4.75	6.5	8

David Willetts
DAVID WILLETTS

SECRET

010/1290

POSSIBLE MAJOR ASSET SALES 1986-87 ONWARDS

	<u>£ billion</u>
British telecom (3rd instalment)	1
British Airways	1 - 1½
British Gas	5 - 7
British Petroleum	3
Rolls Royce	½ - 1
British Telecom ¹	7
Water Authorities ²	5 - 6
	<hr/>
	22½ - 26½

1. Further sales of BT shares possible from April 1988
2. DOE estimate (assumes legislation in 1986-87)

SPECIAL SALES OF ASSETS
PRESENT WORKING ASSUMPTIONS
1985-86 to 1988-89

Please See Attached Explanatory Note

£ million

	1985-86	1986-87	1987-88	1988-89
BRITISH AEROSPACE	346	-	-	-
BRITISH AIRPORTS AUTHORITY	-	-	750	-
BRITISH AIRWAYS BOARD	-	1250	-	-
BGC WYTCH FARM	-	-	130	-
BRITISH GAS	-	2400	1800	1800
BRITISH PETROLEUM	-	-	1500*	1500*
BRITISH TECHNOLOGY GROUP	28	15	15	5
BRITISH TELECOM	1159	1170	-	1500*
BRITISH TELECOM LOAN STOCK	61	53	23	85
BRITTOIL	431	-	-	-
CABLE & WIRELESS	550	-	-	-
FORESTRY COMMISSION	12	10	10	10
LAND SETTLEMENT ASSOC	4	1	1	1
ROLLS ROYCE	-	-	700	-
ROYAL ORDNANCE FACTORIES	-	200	-	-
PLANT BREEDING INSTITUTE	-	25	-	-
MOTORWAY LEASES	1	3	8	10
WATER AUTHORITIES	-	-	-	500
EXTERNAL FINANCE OFFSETS	-	-	-	-
SPECIAL SALES OF ASSETS TOTAL	2592	5127	4937	5411
CURRENT PUBLISHED TARGET	2500	2250	2250	-
NBC SUBSIDIARIES	-	-	100	-
BL SUBSIDIARIES	-	100	-	-
BS SUBSIDIARIES	75	-	-	-
BR SUBSIDIARIES	26	-	-	-
STG SUBSIDIARIES	-	-	5	-
PO SUBSIDIARIES (GIROBANK)	-	70	-	-
TOTAL PRIVATISATION RECEIPTS	2693	5297	5042	5411

* Timing variable.

Notes

1. All figures to the nearest £ million.
2. TSB sale will not score as privatisation but expected February 1986 (receipts around - £1,000m).
3. Only BL sale assumed at present is Unipart in 1986-87.
4. BNFL sale possible at some point with net receipts around £300 million for a 50 per cent sale but no date programmed.
5. Shorts sale possible in period with net receipts possibly around £25 million but no date programmed.
Treatment of any receipts not yet decided.

SPECIAL SALES OF ASSETS

as at: 9 October 1985

PRESENT WORKING ASSUMPTIONS 1985-86 TO 1988-89

EXPLANATORY NOTE

1. British Aerospace

Remaining Government holding sold in early May.

2. British Airports Authority

Legislation in 1985-86 Session. 100 per cent sale assumed in April-July 1987 with £750m receipts in 1987-88.

3. British Airways Board

100 per cent sale assumed in May-June 1986 with £1.25 billion receipts in 1986-87.

4. British Gas Corporation

Legislation in 1985-86 Session. 100 per cent sale assumed Autumn 1986 with net receipts £5-7 billion. Table assumes £6 billion receipts from debt and equity phased as follows:

	<u>£ billion</u>		
<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	
2.4	1.8	1.8	

(equivalent to BT phasing 40:30:30).

Receipts and phasing still very uncertain. Debt created before privatisation and sold subsequently will be treated as special sales of assets.

5. BGC Wytch Farm

The Wytch Farm sale brought in a first tranche of some £82m in 1984-85. This was retained by BGC in order to pay capital gains tax in

1985-86. The second tranche, depending on levels of production, is assumed to be received in 1987-88 and is credited to special sales of assets (£130m).

6. British Petroleum

Government holding 31.7 per cent (market value £3,152m). Further share sales possible from September 1985 onwards. Table assumes holding sold 1987-88 with £1½ billion receipts in 1987-88 and 1988-89.

7. British Technology Group

Book value of BTG's remaining holdings in 50 companies is £38m. £35m receipts assumed in period 1986-87 to 1988-89.

8. British Telecom

50.2 per cent of BT sold in November 1984. Table assumes total net receipts of £3660m. Receipts accrue over an 18 month period as follows:

<u>Initial call</u> <u>November 1984</u>	<u>Second call</u> <u>June 1985</u>	<u>Final call</u> <u>April 1986</u>
£1350m	£1160m	£1150m

Present holding 49.8 per cent (market value £7,020m) plus £750m preference stock. Further sales possible from April 1988 onwards and £1½ billion receipts assumed for 1988-89.

9. British Telecom loan stock

Repayment of BT loan stock held by Secretary of State scores as special sales of assets. £2750 million outstanding redeemable from 1985 to 2006.

10. Britoil

Remaining Government holding sold end-July (partly-paid: £206 million second instalment due 1 November 1985).

1. Cable and Wireless

Government holding 23.1 per cent (market value £600m). Further share sales possible from late November 1985 onwards. Sale of remaining holding assumed in 1985-86 producing receipts of £550m.

12. Forestry Commission

Figures assume continuing programme of property disposals reflecting results of 1984 PES decisions.

13. Land Settlement Association

Minor disposals assumed.

14. Rolls Royce

Sale of 100 per cent assumed for April-July 1987 producing net receipts of £700m (latest merchant bank estimate is that sale receipts might be £900m of which £200m would need to be injected into the company).

15. Royal Ordnance Factories

Vesting as PLC took place on 2 January 1985; sale of 100 per cent assumed for 1986-87 producing receipts of £200m.

16. Plant Breeding Institute

Minor MAFF sale assumed for 1986-87 with receipts of £25m.

17. Motorway Leases

Continued small disposals assumed.

18. Water Authorities

Discussion document issued 1 April. Primary legislation possible in 1986-87 Session. Sales of individual authorities assumed 1988-89 onwards producing £500m receipts in 1988-89.

19. National Bus Company subsidiaries

NBC to be restructured into smaller companies before sale. Receipts treated as negative external finance as existing NLF debt is repaid by NBC. Considerable uncertainty over timing and amounts. Sales could start in 1986 though table assumes no significant receipts before 1987-88.

20. BL subsidiaries

Jaguar sold in August 1984 with receipts of £297m retained by BL. Table assumes disposal of Unipart by end-1985 with receipts of £100m retained by BL: decisions on other disposals to be taken in the context of separate discussions about Landrover/Leyland Vehicles.

21. BS subsidiaries

Warship yards assumed to fetch £75m in 1985-86.

22. BR subsidiaries

Sealink sold in July 1984 for £66m (£40m in 1984-85, £26m in 1985-86). BREL privatisation possible 1986-87 onwards but no feasible propositions yet and likely proceeds unknown.

23. Scottish Transport Group subsidiaries

Decisions on Scottish Bus Group deferred. Disposals assumed at £5m for 1987-88.

24. Post Office subsidiaries (National Girobank)

Decisions in principle yet to be taken. No legislation required. 100 per cent disposal assumed in 1986-87 producing receipts of £70m which are retained by PO because of statutory constraints but reflected in negative external finance. This timing and the amount are highly uncertain.

5. External Finance Offsets

Where a candidate is expected to be privatised during the period covered by this table then an assumption is made as to the timing of the sale. Where no timing has been publicly announced, external finance baselines continue to be included in published aggregate expenditure plans. This line represents the total adjustment that must be made to allow for these external finance items and is included to prevent double-counting. Currently there are no entries under this head.

PE2

9 October 1985