

cc B/JP

PRIME MINISTER

10 March 1986

BA'S PLACE IN THE PRIVATISATION PROGRAMME

The decision to be taken at MISC 112 tomorrow on the timing of BA privatisation needs to be put into the context of the whole of the privatisation programme between now and the Election.

Privatisation has been and could continue to be one of the most popular and successful measures of Government: it improves efficiency and motivation, removes industry from direct Government control, and has meant greater share-ownership. It is important that its momentum is kept up right until the Election (as well as finding a slot in the Manifesto).

The existing Treasury list of privatisation candidates is as follows:

Privatisation Programme

<u>Fiscal Year</u>	<u>Candidates</u>	
	<u>Probable</u>	<u>Possible</u>
<u>1986-87</u>		
July	Royal Ordnance (£200m)	
Nov.	British Gas (£6-£10bn)	Girobank (£70-80m)
Jan./Feb.	British Airways (£1bn)	
	British Airports Authority (£0.75bn)	
	Rolls Royce (£0.75bn)	
	[Trustee Savings Bank £1bn]	

1987-88

Any slippage from 1986-87 plus Water and BP.

Not mentioned in the existing programme are:

- Subsidiaries of British Steel
- Parts of British Leyland
- National Bus Company

Funding

Even with the delay of British Airways, there is no problem in terms of funding the published public expenditure plans of the Government. The Treasury can still raise sufficient cash to meet its asset sales target of £4.75bn for each of the next 2 fiscal years, largely because its holdings of BP shares can be regarded as similar to a tap stock (their current value is around £3bn).

Political Momentum

The continuing list of new candidates shows that the momentum of the privatisation programme is still being maintained. However, some of the candidates on the list have question marks over them, eg:

British Steel Corporation: A number of small trade sales have been made: BSC may well resist more (just like BL) until their profitability is improved - their intentions need to be known.

Trustee Savings Bank: A cloud of litigation hangs over this sale - which is technically not a privatisation.

Girobank: The issues are whether or not legislation is necessary, and the likely industrial relations problems.

National Bus Company: A large number of individual bus companies (about 60) will be for sale, hopefully in many cases to management consortia. The break-up has been controversial, and privatisation will continue to be so while it proceeds. It will need a determined management to push it through successfully.

Royal Ordnance: This is being reorganised on commercial lines. A number of decisions (affecting the Treasury and MOD) will be needed in the immediate future if the timetable is to be met. These cover: the appointment and remuneration of a new Chief Executive; negotiation of a tank contract; subsidisation of uneconomic explosive/propellant factories; payment of cost overruns on a contract for Alarm missiles; and a possibly expensive redundancy scheme for civil servants transferred to Royal Ordnance.

In the case of British Leyland, there are criticisms of the way in which privatisation has been carried out:

- a. It does not seem that the vendors (BL) and their agents (Hill Samuel) were ready with figures about what they were proposing to sell, prepared with the clarity that a purchaser from a public body might expect.
- b. The BL Board does not appear in the public eye as a willing seller; rather it seems that Ministers are acting as receivers without displaying the professional skills of insolvency practitioners, while the Board is conspicuous by its absence from the scene!

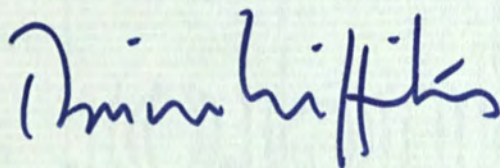
Recommendations

In view of the importance of co-ordination and timing in presenting the programme in the run-up to the Election:

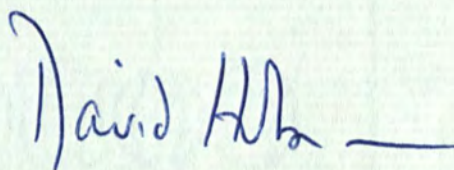
- i. It would be useful if the Financial Secretary could produce a statement on the current state of play for privatisation between now and the summer of 1988.
- ii. Ask individual Ministers concerned with parts of the programme for progress reports - especially British Steel, Girobank, Rolls Royce, TSB, National Bus Company, and Royal Ordnance - with a view to showing how and by

when the existing problems are to be overcome. (Rolls Royce and Girobank are coming to meetings this month).

iii. In view of the fact that the management of BA are eager for the company to be privatised, as well as the publicity given to its sale, it is important that a specific date is fixed for the sale at tomorrow's MISC 112.



BRIAN GRIFFITHS



DAVID HOBSON