TD/B/WG.3/Misc.20
11 May 1993

Original: ENGLISH

Ad Hoc Working Group on Comparative
Experiences with Privatization

Second session
(7-11 June 1993)

COUNTRY PRESENTATION SUBMITTED BY THE UNITED KINGDOM

* The attached country presentation is circulated in the language and form in which it was received. The terminology employed is that of the submitting Authority.

GE.93-51900

Her Majesty's Treasury

Guide to the UK Privatisation Programme

June 1992

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Appendices

PRIVATISATION IN THE UNITED KINGDOM

Introduction

This guide explains what privatisation means in the UK context, what has been achieved so far and what is planned for the future. It also sets out to answer the questions that are most commonly raised about the UK experience.

2. The UK Government's privatisation programme, begun in 1979, ranks among the most radical changes in the UK's economic and industrial structure since 1945. Privatisation is a key element in the Government's economic strategy, one of a range of policies to reduce the size of the state-controlled sector of the economy and to increase the proportion of assets owned privately. Other elements of this strategy include giving state sector tenants the right to buy their own homes and inviting tenders for a wide range of services within the public sector and (where cost-effective) contracting out. Further information on this range of policies is available from the Treasury Press Office (telephone 071 270 5187).

The Nationalised Industries

3. In 1979, the nationalised industries in the UK accounted for about a tenth of the Gross Domestic Product, a seventh of total investment in the economy and around a tenth of the Retail Price Index. They employed about 1½ million people, and dominated the transport, energy, communications, steel and shipbuilding sectors of the economy. But despite the high hopes of their founders, their performance was consistently disappointing in terms of their total return on capital employed and their record on prices, productivity, manpower costs and customer satisfaction.

4. The reasons for these shortcomings are complex. In many cases, the fault lay not with management and workers, but with the system. Nationalised industries are constantly open to political and bureaucratic involvement. Social and commercial objectives become interwined, to the detriment of both. Because the industries' borrowing is underwritten by the Government, it is indistinguishable in market terms from other forms of public sector borrowing, with the result that the needs of individual state industries must on occasion be subordinated to macroeconomic requirements. Public financing constraints spill over to the industries' investment programmes and lead to problems of allocation. Nationalised industries' claims - however justifiable in commercial terms - always have to be viewed against competing claims for public expenditure. There are also other checks and restrictions on matters of detail. All these constraints stem from the paramount need to preserve public accountability through Parliament for the use of public money.

5. Successive Governments have attempted to grapple with the poor performance of nationalised industries through increasingly stringent control frameworks (see Appendix A). The cumulative effect has been to create a set of external stimuli that, in the absence of real competitive forces, try to replicate market pressures. The Government's privatisation and competition policies aim to replace the surrogate market with the real market wherever possible. A list of nationalised industries and other public corporations remaining in the state sector is at Appendix B. The Government continues to look for new

opportunities to privatise or contract out public sector businesses and services.

The aims of privatisation

6. To March 1992, 46 major (and dozens of smaller) companies had been privatised. About two-thirds of nationalised industries in the 1979 state sector and more than 920,000 jobs had been transferred to the private sector.

7. The privatisation programme has two main aims: to promote efficiency, whether through competition or other means, and to widen and deepen share ownership. Competition is the best way to ensure that goods and services are provided at the lowest economic cost. Giving customers freedom of choice assures sustained pressure on companies to increase efficiency. For employees, privatisation means working in a company with clear objectives, the means to achieve these and rewards for success. This, in turn, reinforces concern for the customer.

8. Most privatised companies operate in competitive areas of the economy. But the UK government has not confined the benefits of privatisation to such businesses. Privatisation has been extended to the "natural monopolies" - telecommunications, gas, water and electricity. In these cases, to the extent that competition does not exist, regulatory arrangements take the place of the market in holding down prices and ensuring good service for the consumer (see "Regulation of the Privatised Utilities", page 31).

9. The promotion of wider and deeper share ownership - both among employees and the general public - is part of the Government's policy of extending the ownership of wealth more widely in the economy, giving people a direct stake in the success of British industry, and removing the old distinctions between "owners" and "workers". The privatisation programme has contributed greatly to an increase in the number of private investors in the UK from 3 million in 1979 to 10 million in 1992. About 90% of eligible employees typically become shareholders in their companies on privatisation.

10. Further details of the Government's special arrangements for small investors and employees are on pages 10 to 13.

Achievements of Privatisation

11. In this way, privatisation has substantially extended the area within which the disciplines and benefits of the market place can operate to the benefit of the whole economy.

12. The economy has benefited through higher returns on capital in the privatised industries, which can no longer pre-empt resources from elsewhere in the economy but must compete for funds in the open capital markets. Privatised companies have welcomed this freedom to raise finance on private sector capital markets.

13. The taxpayer has benefited from the £50 billion of proceeds the programme is expected to raise by the end of financial year 1992-93; and from the substantial fall in the charge nationalised industries' financing makes on the Exchequer - down in 1991-92 by about £3.5 billion in real terms compared to 1979. The Exchequer also received in 1991-92 more than £2 billion in corporation tax from privatised firms. A list of

privatisations and share sales and the proceeds accruing is at Appendix C.

14. The consumer has continued to benefit from downward pressure on prices and from rising standards of service. For example, at March 1992, British Gas prices to its industrial customers had fallen by about 29% in real terms over the last 5 years. Large electricity customers are able to shop around and select another supplier offering better and/or cheaper service. BT's main prices had fallen by about 27% in real terms since privatisation. In addition 96% of payphones now work compared to 77% fifteen years ago and since privatisation BT provide nearly 25% more of them.

15. Improvements in performance have not been confined to the major industries. The National Freight Consortium, a company whose market share in the early 1980s was in decline, has been transformed by a management and employee buyout into a successful, international company quoted on the Stock Exchange. An increase in employee share-owners from 38% of the workforce in 1982 to 90% in 1992 has been matched by a compound annual increase in pre-tax profits of 29%. For details of the profit performance of all privatised industries see Appendix D.

THE MECHANICS OF PRIVATISATION

16. The mechanics of privatisation are complex, and each case raises its own problems. The main options are: a trade sale, where a company is sold to a single firm or a consortium, including the option of a management/employee buyout; a public flotation on the Stock Exchange; or, rare in the UK Government's privatisation programme, a placing with a group of investors.

The trade sale

17. Sales of the smaller state-owned companies and businesses in the UK have generally been targeted at trade purchasers. Government policy has been to encourage management and/or employee buyouts (MEBOs), consistent with its policy of promoting employee share ownership (see page 12), and to increase competition for a sale. Details of companies sold to trade purchasers are in the section "Major sales to date", page 13. In the first half of 1992, for example, the British Technology Group and the Northern Ireland Generating Companies were sold to trade buyers.

Flotation

18. Privatisation by flotation has been the option adopted for larger businesses where there was expected to be a wide range of institutional and/or public demand; the forecast level of proceeds justified the higher cost of a flotation; and where, in appropriate cases, there was an opportunity for a widespread public offer to promote the Government's wider share ownership objective. As shown in "Major sales to date", the principal methods of sale have been a fixed price offer of shares; a tender offer at a striking price; or, in a number of cases, a combination of the two.

19. Government policy has been to give priority to the small investor; and, to this end, it has pioneered the development of major retail offer structures from the privatisation of BT in 1984, then the biggest public offer in the world, to the 1991 sale of part of the Government's residual

holding in BT with its novel distribution, pricing and global tender arrangements.

20. Typically these major flotations have comprised a fixed price UK public offer aimed at the retail investor (see "Wider Share Ownership", page 10) and an institutional offer. In some sales (BT in 1984, British Gas, Water and the Regional Electricity companies) the international offer was at the fixed price available in the UK public offer. In some others (eg the 1990 sale of the two generating companies in England and Wales and the 1991 sale of the Scottish Electricity companies) an international tender offer aimed to secure additional proceeds in circumstances where trading was expected to open at a premium compared with the issue price.

21. The Government went further in the 1991 sale of part of its residual holding in BT. In this sale there was no fixed price offer of shares to the public or to institutions. Instead, the price of shares sold in the UK public offer was set at a discount to the strike price secured in an international tender offer after the close of both offers. This was a wholly competitive tender conducted worldwide by a global co-ordinator. Allocations were made on the basis of quality of bids. In a novel departure from previous sales, there was no underwriting, or protection for banks participating in the international offer.

22. The purpose of these BT sale arrangements was to preserve maximum responsiveness to market conditions. The UK Government's international global tender mechanism has since been emulated in private sector share sales.

23. An outline of the typical steps leading up to a privatisation is at Appendix E.

THE SPECIAL SHARE

24. In a number of privatisations, whether trade sales or a major public flotation, there has been a clear need to protect a business from unwelcome takeover, for example, on national security grounds, or, as a temporary measure, to provide an opportunity for management to adjust to the private sector. To this end the Government retains, or has held, special ("golden") shares in a number of privatised companies. The special share requires that certain provisions in the Articles of Association of the Company may not be changed without the specific consent of the special shareholder. The details of those provisions vary according to the circumstances of each company, but they typically include, for example, a prohibition on any one person, or group of persons acting in concert, controlling more than 15 per cent of the equity of the company.

25. Although the Government generally favours a free market in shares, where the strategic implications of the company's business warrant such an instrument it may agree a non-time limited special share (although it will retain the right to redeem the share at any time). In other cases, where there is a need to allow a company a period of transition to the private sector, a time limited special share has been considered appropriate.

26. The presence of a special share in a company provides the government with a useful tool but is not designed to be a straightjacket on the management. The provisions attached to a special share may be amended or waived where the government deems the circumstances to warrant it. For example the non-time limited special share in Britoil was redeemed in 1990 after BP successfully bid for the company.

27. The government's current holding of special shares is listed at Appendix F.

WIDER SHARE OWNERSHIP

28. The development of major retail offers by the UK Government has made an important contribution to the increase in individual share ownership from 3 million in 1979 to about 10 million in 1992. About 22 per cent of the adult population own shares (compared with 7 per cent in 1979); about 14 per cent own shares in privatised companies.

29. The government has used privatisation issues to promote wider share ownership by:

(i) giving the smallest investor priority in allocation of shares instead of following the accepted private sector practice of scaling back to the benefit of the largest applicant;

(ii) making purchases more generally affordable through instalment payments, which also contribute to a higher return on investment;

(iii) offering incentives to encourage demand and the retention of shares in the longer term; and

(iv) using major advertising campaigns to attract the small investor (a revolutionary development when the Government first introduced it).

Incentives

30. In major flotations and share sales, incentives have been available to private individuals who registered their interest before the start of a UK public offer and who were subsequently allocated shares. These have typically included:-bonus shares; for example, one free share for every ten shares an applicant holds continuously for three years; or-instalment discounts; a reduction in an instalment payment at the time it is made; or-customer vouchers; a voucher or vouchers of a given amount for domestic customers to set against the privatised company's bills, when they have held their shares for a given period.

31. The terms of any incentives have varied from sale to sale. For example, a choice of bonus shares or instalment discount was available in the water sale; and bonus shares or customer vouchers in the sales of the electricity companies in Great Britain.

Share Shops

32. In its sale of part of its residual shareholding in BT in 1991, the Government sought to promote wider public knowledge and understanding of private sector share dealing services by appointing eight financial service providers, mostly with a high street presence, to

provide cheap and accessible buying and selling arrangements for a range of shares. Each of the eight selected Share Shops was required to provide information on their services to individuals who applied through them and were subsequently allocated shares. The initiative promoted wide publicity on sharedealing services and a range of competitive sharedealing arrangements.

33. Details of total allocations to the public and to institutions in recent share offers are shown in Appendix G together with the latest figures published by the companies concerned for the number of shareholdings in their companies.

EMPLOYEES

Employees

34. Special arrangements have also been made to encourage employee participation in all privatisations where a majority shareholding has been sold by stock market flotation. The arrangements have typically included:

(a) An offer of free shares (up to a limit).

(b) An offer of shares given free in proportion to shares bought by the employee (up to limit).

(c) A discount on the offer price of shares (up to a limit).

(d) Priority or preference in the allocation of any shares an employee may apply for (up to a limit).

In a number of cases, long-term share based profit sharing schemes have been introduced by the companies as part of these arrangements.

35. The maximum value of the incentives in each case and the take up by the work force are given in the table at Appendix H. For example, 96 per cent of eligible BT employees and 99 per cent of eligible British Gas employees applied for and were allotted shares.

36. In addition, the Government has encouraged the participation of management and employee buyout consortia in competitive trade sales. It has also had regard to proposed arrangements for employee participation in reviewing bids from trade purchasers.

MAJOR SALES SO FAR

British Petroleum (BP)

37. Major oil company, 1991 turnover of £33 billion. The Government obtained a majority holding in the company in 1914.

Method of sale

(October 1979)	fixed price offer of 5 per cent of company at 363p/share
(June 1981)	sale of Government rights in a rights issue
(September 1983)	tender offer of 7 per cent of company at 405p/share;striking price 435p/share

	(October 1987)	offer of 31.7 per cent of company, underwritten at 330p/share, comprising UK fixed price offer and international tender offer.

Residual Government shareholding

38. 68 million fully paid shares retained for bonus issue,and 39 million partly paid shares bought back by Issue Department of Bank of England. Following payment of the bonus issue in 1990, Government retains 101 million shares (1.9% of the company).

NOTE: In 1977, the Government reduced its shareholding from 68.3 per cent to 51 per cent in a public share offer.

On 1 May 1987, the company issued a 1 for 3 scrip issue

As part of the 1987 sale, the Government subscribed for £1.5 billion new BP shares, and sold them on in the offer.

British Aerospace

39. Leading British aerospace company, 1991 turnover of £10,562 million

Method of sale	(February 1981)	fixed price offer of 51.6 per cent of company at 150p/share
	(May 1985)	fixed price offer of remaining 48.4 per cent shareholding at 375p/share.

Residual Government shareholding

Nil (but the Government retains one special share).

NOTE: £100 million of gross proceeds from first sale put into company as capital injection.

The company raised a further £187.5million gross by sale of new shares at the same time as the second sale.

British Sugar Corporation

41. Major sugar refiner.

Method of sale	(July 1981)	placing of Government's 24 per cent shareholding with institutional investors

Residual Government shareholding

42. Nil.

Cable & Wireless

43. Major international telecommunications company, 1991 turnover of £2,593 million.

Method of sale	(October 1981)	fixed price offer of 49.4 per cent of company at 168p/share
	(December 1983)	tender offer of 22.3 per cent of company at 275p/share; striking price 275p/share

	(December 1985)	fixed price offer of 22.7 per cent of company at 587p/share

Residual Government shareholding

44. Nil (but the government retains one special share.)

NOTE: the 1983 share price partly reflected an earlier 1 for 2 scrip issue. An issue of new shares by the company in February 1983 reduced the Government's residual shareholding at that time to 45 per cent.

<u>Amersham International</u>

45. International radiochemicals company, 1991 turnover of £242.4 million.

Method of sale	(February 1982)	fixed price offer of 100 per cent of company at 142p/share

Residual Government shareholding

46. Nil.

NOTE: the company raised a further £7.3 million by sale of new shares at the same time.

<u>National Freight Consortium (NFC)</u>

47. Road Haulage company, 1991 turnover of £1,664 million.

Method of sale	(February 1982)	bought out by management led consortium of employees and pensioners

Residual Government shareholding

48. Nil.

NOTE: £48.7 million of gross proceeds paid into company's pension fund to remedy deficiency in earlier funding.

<u>Britoil</u>

49. Formed from North Sea oil exploration and production interests of British National Oil Corporation (BNOC); 1986 turnover of £978 million. Became a wholly owned subsidiary of BP in February 1988.

Method of sale	(November 1982)	tender offer of 51 per cent of company at 215p/share; striking price 215p/share
	(August 1985)	fixed price offer of 49 per cent of company at 185p/share

Residual Government shareholding

50. Nil.

<u>Associated British Ports</u>

51. Holding company running several major UK ports, transport operations and property activities. 1991 turnover of £310.3 million.

Method of sale	(February 1983)	fixed price offer of 51.5 per cent of company at 112p/share
	(April 1984)	tender offer of 48.5 per cent of company at 250p/share striking price 270p/share

Residual Government shareholding — 52. Nil.

International Aeradio

53. Aviation communications subsidiary of British Airways, 1982-83 turnover of £169.9m

Method of sale	(March 1983)	sold to Standard Telephone and Cable (STC). Since re-sold to British Telecom.

NOTE: proceeds of £60 million retained by British Airways.

British Rail Hotels

54. A group of 23 hotels run by British Rail.

Method of sale	(March 1983-December1984)	Sold to the trade

NOTE: proceeds of £45 million retained by British Rail

British Gas Corporation Onshore Oil Assets (Wytch Farm)

55. Onshore oil field in Southern England. British Gas Corporation and British Petroleum each held 50% stake.

Method of sale	(May 1984)	sold to a group of bidders

NOTE: Most of the initial proceeds of £85 million retained by British Gas Corporation. The sale agreement provided for a further £130 million to be paid when production reached 20,000 bd; this was received by the government in 1990.

Enterprise Oil

56. Formed from British Gas Corporation's North Sea oil production and exploration interests: 1990 turnover of £497 million.

Method of sale	(June 1984)	tender offer of 100 per cent of company at 185p/share; striking price 185p/share

Residual Government shareholding — 57. Nil.

Sealink

58. Harbour and ferry subsidiary of British Rail, 1983 turnover of £265 million.

Method of sale	(July 1984)	sold to British Ferries, subsidiary of Sea Containers Inc.
Residual Government shareholding	59. Nil (but the Government retains one special share.)	

NOTE: Proceeds of £66 million retained by British Rail.

Jaguar

60. Luxury car making subsidiary of BL, 1987 turnover of £1,002.1 million. Now a wholly-owned subsidiary of the Ford Motor Company.

Method of sale	(July 1984)	fixed price offer of 100 per cent of company at 165p/share
Residual Government shareholding	61. Nil.	

NOTE: proceeds retained by BL.

British Telecom (BT)

62. Leading UK Telecommunications company, 1992 turnover of £13.3 billion.

Method of sale	(November 1984)	fixed price offer of 50.2 per cent of company at 130p/share.
	(December 1991)	offer of up to 21.9 per cent (subject to increase) o company in a combined public offer and International Tender offer. The outcome was the sale of 25.9 per cent of company at a strike price of 350p per share (335p per share for those sold in public offer).
Residual Government shareholding	63. 22.0 per cent of ordinary shares, plus a holding £2,186 million of loan stock. The Government also retains one special share.	

British Shipbuilders

64. The Warshipbuilding side of BS was sold between May 1985 and March 1986.

Method of sale

- Four management/employee buyouts
- Two trade sales

65. Three shiprepair yards were sold between February 1984 and September 1985:

Method of sale

- Two management buyouts
- One trade sale.

NOTE: proceeds of £54 million retained by British Shipbuilders.

66. Five other operating subsidiaries have also been sold between June 1988 and April 1989:

Method of sales	-Two management buyouts	
	-Three trade sales	
	NOTE:	proceeds retained by British Shipbuilders.

British Airways Helicopters

67. Operators of the British Airways helicopter fleet.

Method of sale	(September 1986)	sold to SDR Helicopters
	NOTE:	Gross proceeds of £13.5m retained by BA.

British Gas

68. Major UK gas supply company, 1991 turnover of £9,491 million.

Method of sale	(December 1986)	fixed price offer of 100 per cent of company at 135p/share; 3 per cent retained for bonus issue.
	(July 1990)	sale of 54 million shares at 219¾p per share in a bought deal
Residual Government shareholding	69. Negligible (but the Government retains one special share)	

British Airways

70. Leading UK airline company, 1990 turnover of £4,838 million

Method of sale	(January 1987)	fixed price offer of 100 per cent of company at 125p/share
Residual Government shareholding	71. 0.4 per cent of company.	

Royal Ordnance

72. Manufacturer of artillery, ammunition, explosives, ordnance, small arms and rocket motors. The Leeds tank factory was sold separately in October 1986.

Method of sale	(April 1987)	Sale to British Aerospace

Rolls-Royce

73. Civil and military aeroengine manufacturer, 1991 turnover £3,515 million

Method of sale	(May 1987)	fixed price offer of 100 per cent of company at 170p/share

Residual Government shareholding	74. Nil (but the Government retains one special share)	

.BAA (British Airports Authority)

75. BAA owns and operates 7 international airports including Heathrow and Gatwick, 1991 revenue £834 million.

Method of sale	(July 1987)	offer of 100 per cent of company, partially at fixed price of 245p/share, and partially at the tender price. 4.4 per cent of company retained for bonus issue
Residual Government shareholding	76. 3 per cent of company (and the Government retains one special share).	

National Bus Company

77. NBC operated bus services through local bus or coach operating companies in England and Wales. 1985 turnover more than £800 million.

Method of sale	(July 1986 to May 1988)	62 separate sales of operating subsidiaries through trade sales and management buyouts.

Rover Group

78. Motor vehicle manufacturers.

Method of sale	(August 1988)	Sale to British Aerospace

NOTE: Previous sales of Rover Group subsidaries include Unipart and Leyland Bus. (For Jaguar see P.19).

Unipart

79. Supplier of Rover parts and accessories.

Method of Sale	(January 1987)	Management/employee buyout by UGC Ltd.

Leyland Bus

80. Bus manufacturers

Method of sale	(January 1987)	Management/employee buyout.

Istel

81.Information technology company

Method of sale	(June 1987)	Sold to management consortium with Rover

Leyland Truck and Freight Rover

82. Truck and van manufacture

Method of sale	(April 1987)	Sold to DAF, with Rover Group retaining minority 40 per cent shareholding in merged company.

<u>British Steel</u>

83. Largest steel producer in UK, 1991 turnover of £5,041 million.

Method of sale	(December 1988)	fixed price offer of 100 per cent of company at 125p/share
Residual Government shareholding	84. Nil (but the Government retains one special share)..	

<u>General Practice Finance Corporation</u>

85. GPFC makes loans to GPs to acquire or improve surgery premises.

Method of sale	(March 1989)	Sold to Norwich Union Life Insurance Society.

<u>Technology Group holdings</u>

86. Sales by British Technology Group (now privatised as BTG), formerly the National Enterprise Board (NEB), amongst others include International Computers Ltd (ICL), Fairey, Ferranti and Inmos:

<u>ICL</u>

87. Major computer manufacturer, 1983 turnover of £847 million

Method of sale	(December 1979)	25 per cent NEB holding sold to institutional investors

<u>Fairey</u>

88. Specialised engineering technology company

Method of sale	(June 1980)	100 per cent NEB holding sold to Doulton (a subsidiary of S Pearson & Co).

<u>Ferranti</u>

89. Electrical and electronic engineering company, 1983 turnover of £372 million

Method of sale	(July 1980)	50 per cent NEB holding sold to institutional investors

<u>Inmos</u>

90. Silicon chip manufacturer, 1983 turnover of £38 million

Method of sale	(August 1984)	75 per cent BTG holding sold to Thorn EMI

North Sea Oil Licences (Special Licensing Rounds)

91. From time to time, instead of allocating exploration acreage, the Government holds an auction for licence blocks. Where this happens the cash premia from the auction are treated as privatisation receipts.

Harland & Wolff

92. Shipbuilders

Method of sale	(8 September 1989)	hive down of business to new company subsequently acquired by Holding company formed by management and employees
Residual Government shareholding	93. Nil, but continues to have responsibility for some liabilities in the residual company which is no longer trading.	

Short Brothers

94. Aerospace manufacturers

Method of sale	(4 October 1989)	share capital sold to Bombardier Inc, Canada.
Residual Government shareholding	95. Nil, but continue to have responsibility for ex-Shorts aircraft sales financing companies.	

Water and Sewerage Companies

96. Formerly the 10 regional water authorities in England and Wales, supplying water and sewerage services.

Method of sale	(December 1989)	fixed price offer of 100 per cent of all companies at 240p/share.
Residual Government shareholding	97. 1.6 per cent of companies retained to meet bonus issue (and Government retains one special share in each company).	

Girobank

98. A bank, incorporated in 1985 as a wholly-owned subsidiary of the Post Office.

Method of sale	(2 July 1990)	Sold to Alliance and Leicester Building Society.

Regional Electricity Companies

99. Formerly the 12 electricity boards in England and Wales distributing electricity to customers.

Method of sale	(December 1990)	fixed price offer of 100 per cent of all companies at 240p per share.
Residual Government shareholding	100. About 3 per cent of companies retained to meet bonus issue (and government retains one special share in each company).	

National Grid

101. The national grid owns and operates the electricity system in England and Wales and the interconnection assets linking the grid with the transmission systems in Scotland and France. 1992 turnover of £1320 million.

Method of sale	(December 1990)	privatised at the same time as the regional electricity companies. No shares in the company were offered for sale (all the shares in the grid's holding company are owned by the regional electricity companies).
Residual Government shareholding	102. Nil (but the government retains one special share in each of the grid company and its holding company).	

Generating Companies

103. Two companies, National Power and PowerGen, were formed to take over the non-nuclear generation of electricity from the CEGB (Central Electricity Generating Board).

Method of sale	(March 1991)	fixed price offer of 60 per cent of each company at 175p per share combined with a "back-end" tender.
Residual Government shareholding	104. 40 per cent of each company (and the government retains one special share in each company).	

Scottish Electricity Companies

105. Two companies, Scottish Power and Scottish Hydro-Electric (formerly the South of Scotland Electricity Board and the North of Scotland Hydro-Electric Board respectively) generate and distribute electricity in Scotland and a small part of Northumberland.

Method of sale	(June 1991)	fixed price offer of 100 per cent of each company at 240p per share combined with a "back-end" tender.
Residual Government shareholding	106. 3.5 per cent of the companies retained to meet bonus issue (and government retains one special share in each company).	

Scottish Transport Group

107. STG comprised Scottish Bus Group, Caledonian MacBrayne and several other subsidiaries. Scottish Bus Group operated bus and coach services, Caledonian MacBrayne operates the main sea ferry services in the Clyde and Western Isles.

Method of sale of Scottish Bus Group	(August 90 -October 91)	10 separate sales of operating subsidiaries through trade sales and management buy-outs.

108. Ownership of Caledonian MacBrayne has been transferred to the Scottish Office.

Trust Ports

109. The trust ports operate ports and associated activities (eg marine, property) throughout the UK. The ports privatised to date are:

Method of sale

Tees & Hartlepool	(January 1992)	trade sale
Medway	(March 1992)	management and employee buy-out
Clyde	(March 1992)	as above
Tilbury	(March 1992)	as above
Forth ports	(March 1992)	flotation

Northern Ireland generating companies

110. The 4 power stations which supply electricity to Northern Irelanc Electricity (which runs the transmission and distribution system) were sold separately.

Method of sale

(April-June 1992)	separate sales through trade sales and a management buy-out.

Miscellaneous

111. Includes sale of Professional and Executive Recruitment, British Technology Group, Insurance Services Group, National Transcommunications, Skills Training Agencies, sales by New Towns Development Corporation, sales of oil and commodity stockpiles, Forestry Commission Land, and Crown Agents Holding Board proper

Advisers

112. A list of advisers appointed to these sales is at Appendix I.

REGULATION OF THE PRIVATISED UTILITIES

113. As the last section shows the privatisation programme has encompassed not just businesses that operated in a commercially competitive environment while in the public sector but also those that operated as near monopolies - the public utilities, gas, water, electricity and telecommunications.

114. A common argument for public ownership of the utilities is the need to protect the consumer from the abuse of monopoly power. In practice, protection of the consumer was not a priority when the utiliti were in the public sector. From time to time the utilities' commercial judgements on pricing would be overturned for political reasons, but such decisions would be taken ad hoc rather than on a consistent and transparent basis.

115. For these reasons the government established a system of independent regulation for the privatised utilities. For each of the nov privatised utility sectors there is a regulatory body independent of

government which has a wide range of powers and duties to promote the interests of consumers. These include the consideration of all complaints and representations about the company's services.

116. The regulators provide a level of protection that the consumer never enjoyed before privatisation. Each of the privatised utilities has a price formula which in most cases limits annual price increases to no more than, and usually less than, the rate of inflation. To take but two examples, under these price formulae, and after taking account of inflation, BT has reduced its main prices by 27% since privatisation and British Gas has reduced its prices to domestic consumers by about 13%. The present exceptions are the price formulae for the water companies where, to allow for heavy investment to reach legal standards on water quality, annual price increases are, in the short-term, a little above the rate of inflation. These formulae ensure an effective ceiling to water price rises which the consumer did not enjoy before privatisation

117. The championing of the consumer by the regulators has placed the utilities in an environment that encourages a better service than was provided while in the public sector. Examples of the many non-price customer benefits are:

- Customers of all the utilities can now be awarded compensation if appointments are not kept or if the utility fails to meet any of the required standards.

- British Gas now operates a code of practice on disconnections approved by its regulator. British Gas has halved the number of disconnections since privatisation. They are now at the lowest level ever recorded (records began in 1979).

- BT allows pensioners to opt to pay half the normal line rental and provides enough free units for 2 hours' cheap rate local calls per quarter.

118. In the USA, where private sector utilities are commonplace, regulation usually takes the form of a control on the companies' profits (the rate-of-return method). However, the UK government opted instead for control through price formulae, to provide a greater incentive for the companies to improve efficiency, one of the aims of privatisation.

The independent regulators established to date are:

BT:	Office of Telecommunications Export House 50 Ludgate Hill LONDON EC4M 7JJ
BRITISH GAS:	Office of Gas Supply Southside 105 Victoria Street LONDON SW1E 6QT

WATER:	Office of Water Services Centre City Tower 7 Hill Street BIRMINGHAM B5 4UA
ELECTRICITY:	Office of Electricity Regulation Hagley House Hagley Road Edgbaston BIRMINGHAM B16 8QG

119. In addition, the National Rivers Authority was created as part o: water privatisation to manage water resources and control water pollution, duties which the water companies themselves undertook while in the public sector. The NRA also has duties in respect of flooı defence, fisheries, recreation and navigation.

FUTURE SALES

Major sales

120. Remaining major privatisations in hand are:

- PSAS

- Northern Ireland Electricity (transmission and distribution)

- British Coal

- British Rail (BR to maintain responsibility for track and infrastructure for the time being).

Minor sales

121. Work has begun on the privatisation of:

- Covent Garden Market Authority

- Northern Ireland Airports

122. Advisers have been appointed to study the feasibility of privatisin

- Horserace Totaliser Board (the "Tote")

- London Buses Ltd

General

123. The Government will continue to identify other candidates for privatisation, large or small. The Government's residual holdings in private sector companies will be sold as the circumstances of the companies, prospectus undertakings and market conditions permit.

HM Treasury
June 1992

APPENDICES

CONTROL FRAMEWORK FOR NATIONALISED INDUSTRIES INTHE UNITED KINGDOM

1. Financial and economic objectives for the nationalised industries have been the subject of three major White Papers, in 1961, 1967 and 1978. The financial framework within which the nationalised industries operate is designed to promote the efficient allocation and use of their resources and to integrate the industries' medium-term commercial aims with the requirements of Government policy on the management of the economy and the control of public expenditure. The main elements are set out below

2. The Government has agreed **strategic objectives** with individual nationalised industries in order to provide a clear framework for their operations. These objectives are consistent with the industries' statutory duties and with their financial targets and performance aims, although they cover considerably wider areas than the latter.

3. Industries prepare annual **corporate plans** which are finalised in the spring. Based on the figures set in the previous Investment and Financing Review (IFR), corporate plans are the key document to help industries manage themselves. Corporate plans should discuss options, set out plans for efficiency gains, and demonstrate how Ministers' targets are to be met. Following the IFR, Ministers make a formal response to the corporate plans.

4. A regular and systematic programme for **comprehensive annual assessments** by Ministers of each major industry has been established. The assessment includes consideration of the corporate plan produced by each industry and a performance review produced by the sponsoring Department. These should both feed into the annual **Investment and Financing Review (IFR)**. Each spring, the Treasury issues guidelines for the conduct of the IFR.

5. **External Financing Limits (EFLs)** are an important operating control. They control the amount of external finance (grants and borrowing, including leasing) a nationalised industry may raise in any financial year. They were introduced in 1976 as part of a general reform of the system for control of public expenditure. The limits are set in the light of a nationalised industry's financial targets and its expected performance and investment requirement.

6. In addition, there is an annual **limit on capital expenditure**, set in the IFR. To assist forward planning, once investment plans have been agreed, formal approval may be given to industries to commit up to 100 per cent of their agreed investment for the year ahead, up to 85 per cent for the second year and up to 70 per cent for the third. Each year in the winter, the Chief Secretary writes to Ministers to initiate this process.

7. Industries' performance within the financial framework is regularly **monitored**. Monthly returns are submitted by industries to sponsor Departments and to the Treasury under the Nationalised Industries Financial Information System (NIFIS). A standard return, the Monthly

Funds Flow Statements (MFFS), is completed by all industries. It covers borrowing and other external finance, capital requirements and internal resources. In addition, reports tailored to the circumstances of individual industries monitor the industries' performance as businesses.

8. To ensure that nationalised industry investment earns an adequate economic return, there is a **required rate of return** (RRR) which most new investment programmes are expected to achieve. The RRR is 8 per cent in real terms before tax. This figure reflects estimates of returns earned in the private sector and those expected to be achieved in the future. Individual projects may need to achieve a higher rate of return to produce the required return on the investment programme as a whole. More risky projects will be expected to offer a higher prospective return. It is up to the industry to set an appropriate hurdle rate for individual projects.

9. Responsibility for the **investment appraisal of individual projects** within the investment plan rests with the management of the industries concerned. But the industries need specific endorsement by the Government for selected projects, for example, those that are particularly large or contentious.

10. **Financial targets** are laid down for individual nationalised industries with the aim of giving them a financial framework analogous to that in which private sector companies operate as a result of the need to earn profits. They are generally set for a period of three years, the form of the target varying according to the commercial character of the industry concerned. For profitable industries they are generally expressed in terms of operating profit (on a current cost basis) calculated as a proportion of assets valued at replacement cost.

11. Financial targets are backed up by a series of **performance aims** covering costs and standards of service. These are particularly important for industries with a degree of monopoly power where financial targets would not automatically impose pressures for operating efficiency. Performance aims for costs, and where appropriate standards of service, generally for three year periods, have been agreed for a number of industries. The Citizen's Charter makes it more important to set demanding quality targets which reflect the value which customers get from higher quality services, but in ways which do not add to total public expenditure.

12. **Prices** charged by nationalised industries are expected to cover costs, including an adequate return on capital (with certain excpetions, for example socially desirable passenger rail services for which British Rail receives financial support towards the cost of operation). Prices should not just be set to cover total costs but, in relation to particular services and for peak and off-peak usage, should be related to the relative costs of supply, so that the provision of capacity is properly related to demand and so that arbitrary cross-subsidisation between different groups of consumers, and the consequent waste of resources, are avoided.

13. More information on the control framework and on the targets and cash figures for individual nationalised industries is set out in the annual Statistical Supplement to the Autumn Statement.

NATIONALISED INDUSTRIES AND PUBLIC CORPORATIONS

The nationalised industries as at May 1992 are as follows:

British Coal

British Rail

British Shipbuilders

British Waterways Board

Caledonian MacBrayne Ltd

Civil Aviation Authority

Nuclear Electric plc

Post Office

London Transport

Scottish Nuclear Ltd

Scottish Transport Group

The other public corporations at January 1992 are as follows:

Audit Commission

Bank of England

British Broadcasting Corporation

British Technology Group

The Buying Agency

Central Office of Information

Commonwealth Development Corporation

Companies House

Covent Garden Market Authority

Crown Agents

Crown Agents Holding and Realisation Board

Crown Suppliers

Development Board for Rural Wales

English Industrial Estates Corporation

Her Majesty's Stationery Office

Highlands and Islands Enterprise

Housing Action Trusts

Independent Broadcasting Authority

Land Authority for Wales

Letchworth Garden City

National Dock Labour Board

National Film Finance Corporation

National Health Service Trusts

New Town Development Corporations

Northern Ireland Electricity Service

Northern Ireland Housing Executive

Northern Ireland Public Trust Port Authorities

Northern Ireland Transport Holding Company

Oil and Pipelines Agency

The Patent Office

Pilotage Commission

Royal Mint

Scottish Enterprise

Scottish Homes

Scottish Special Housing Association

Trust Ports

United Kingdom Atomic Energy Authority

Urban Development Corporations

Vehicle Inspectorate

Welsh Development Agency

Welsh Fourth Channel Authority

Privatisation proceeds [1], 1979-80 to 1991-92

£ MILLION

	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 outturn	1989-90 outturn	1990-91 outturn	1991-92 estimated outturn [2]
Amersham International plc			64										
Associated British Ports Holdings plc				46		51							
BAA plc									534	689			
British Aerospace plc		43					347						
British Airways plc								435	419				
British Gas plc-sale of shares								1,820	1,758	1,555	4	150	
British Gas plc-redemption of debt								750		250	800	350	
British Petroleum plc	276		8		543				863[3]	3,030[3]	1,363		
British Steel plc										1,138	1,287		
British Sugar Corporation			44										
British Telecommunications plc-sale of shares						1,358	1,246[4]	1,081					
British Telecommunications plc-loan stock						44	61	53	23	85	85	100	
British Telecommunications plc-redemption of preference shares								250	250	250			
Britoil plc				334[5]	293		426						
Cable and Wireless plc			181		263		577						
Electricity industries													
- sale of shares (England and Wales)												3,134	2,310
- sale of shares (Scotland)													1,105
- redemption of debt													1,105
Enterprise Oil plc						384							
Forestry Commission				14	21	28	15	16	13	12	15	11	16
General Practice Finance Corporation										67			
Harland and Wolff											6		10
Insurance Services													
Land Settlement					2	12	5	2				1	
Motorway Service Area leases				4	1			2	1		2	5	5
National Enterprise Board Holdings	37	83	2			168	30	34					
National Freight Consortium			5[6]										
National Transcommunications Ltd													
Professional and Executive Recruitment										5			68
Plant Breeding Institute									65[7]				
Rolls-Royce plc									1,029	3			
Rover Group plc											150[8]		
Royal Ordnance plc									186				
Short Brothers											30		
Water plcs											496	1,484	1,490
Wytch Farm								18				130	
Miscellaneous [9]	64	84	189	57	15	4	-2	-4	-2	-13	-18	-18	1,891
TOTAL	377[10]	210[10]	493[10]	455	1,139	2,050	2,706	4,458	5,140	7,069	4,719	5345	8000

(1) Excludes proceeds from sales of subsidiaries which were retained by the parent industry. The main sales in this category were:

		£ million
1982-83	International Aeradio (BA)	60
	British Rail Hotels	30
1983-84	British Rail Hotels	15
1984-85	Jaguar (BL)	297
	Sealink (BR)	40
	Wych Farm (BGC)	82
1985-86	Warship yards (British Ship-builders)	54
	Sealink (BR)	26
1986-87	B A Helicopters	14
	Unipart (Rover)	Up to 52
	Leyland Bus (Rover)	4
	British Coal subisiaries	1
1987-88	British Transport Advertising	40
	Istel (Rover)	48
1988-89	National Bus Company subsidiaries	24
1989-90	National Bus Company subsidiaries	1
1990-91	Girobank (Post Office)	112
	National Bus Company subsidiaries	124
	Scottish Transport Group subsidiaries	27
1991-92	Scottish Transport Group subsidiaries	13

(2) Figures are only given for individual privatisations which have already taken place and for which estimates of the proceeds were available in time for inclusion in this Supplement. Proceeds for other sales are all included under miscellaneous

(3) Net of the cost of acquiring partly-paid shares under the support arrangements announcement by the Chancellor on 29 October 1987

(4) Includes some third instalments (worth £87 million approx) paid early

(5) Includes repayments of debentures of £88 million with interest

(6) £49 million of the £54 million proceeds paid into the pension fund to cover a deficit

(7) The central government sector received £65 million but only £27 million was paid to the Consolidated Fund

(8) Does not take into account the cost of deferring payments of consideration

(9) Includes expenses which could not netted off the associated sale because they arose in a financial year in which there were no proceeds from that sale. See also footnote 2

(10) Excludes certain advance oil payments which net out to zero (1979-80 (£622 million), (-£49 million) NS 1981-82 (-£573 million)

PROFIT PERFORMANCE

COMPANY AND YEAR OF PRIVATISATION

£ million
POST-PRIVATISATION

Pre-taxprofit (loss) - Historic Cost Convention:

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
British Aerospace (1981)	50.3	52.8	70.6	84.7	82.3	120.2	150.5	182.2	161	236(7)	293(8)	400	154	
Cable & Wireless (1981)	59.4	61.0	64.1	89.2	156.7	190.1	245.2	287.3	340.5	356.1	420	527	609	644
Amersham International (1982)	6.0	4.0	4.8	8.5	11.7	13.7	17.1	17.6	22.1	25.3	21.4	23.9	16.5	20.7
National Freight Consortium (1982)			4.3	10.1	11.8	16.9	27.2	37.0	47.4	67.1	90.2	97.7	93.7	
Britoil (1982)		294.0	423.1 (2)	486.3	550.4	650.4	730.9	134.0	403.9	(5)				
Associated British Ports (1983)	22.4	11.5	(10.3)	5.5	14.5	(7.0) (3)	17.2	26.0	38.1	46.5	57.2	60.2	31.0	
Enterprise Oil (1984)					83.2(4)	138.5	111.1	2.9	72.5	67.5	148.8	210.3	114.4	
Jaguar (1984)		(47.3)	(31.7)	9.6	50.0	91.5	121.3	120.8	97.0	47.5	(49.3) (6)			
British Telecom (1984)		424	570	936	1,031	990	1,480	1,833	2,067	2,292	2,437	2,692	3075	3073
British Gas (1986)[1]							712	800	1,067	1,018	1,065	1,063	1556 (10)	
British Airways (1987)				(108)	74	185	191	195	162	228	268	345	130	
Rolls-Royce (1987)					(115)	26	81	120	156	168	233	176	51	
BAA (1987)[1]					30	48	72	84	90	166	198	256	247	192
British Steel (1988)[1]						(229)	(378)	42	177	419	593	733	254	(55)

PRE-PRIVATISATION

(last full year in public sector)

PRIVATE SECTOR

£million
POST-PRIVATISATION

	1985	1986	1987	1988	1989	1990	1991	1992
Anglian Water (1989)[9]	21.1	37.4	52.2	58.7	73.4	86.1	152.6	171.3
Nrothumbrian Water (1989)[9]	0.1	3.0	7.1	10.8	10.1	10.0	46.9	61.1
North West Water (1989)[9]	(26.0)	(6.9)	8.9	25.3	44.3	75.3	214.5	230
Severn Trent (1989)[9]	(17.8)	39.0	52.0	96.6	97.5	129.9	249	265
Southern Water (1989)[9]	22.0	36.9	47.3	59.3	65.1	60.1	97.1	
South West Water (1989)[9]	20.6	23.9	28.1	33.5	38.1	45.3	88.2	90
Thames Water (1989)[9]	99.4	144.1	151.1	180.7	207.2	179.2	212.3	
Welsh Water (1989)[9]	(12.8)	(3.5)	11.9	16.4	24.9	39.5	128.1	138.2
Wessex Water (1989)[9]	9.9	15.0	21.5	25.0	24.1	27.0	66.0	76.9
Yorkshire Water (1989)[9]	18.4	22.2	37.0	56.7	55.7	57.7	114.1	123.9
Eastern Electricity (1990)		88.0	100.5	99.9	119.0	124.4	130.6	
East Midlands Electricity (1990)		48.2	70.9	81.9	87.0	90.9	119.1	150
London Electricity (1990)		84.7	95.6	96.2	112.7	126.2	141.8	
Manweb (1990)		26.9	33.1	28.5	39.5	37.7	58.9	94.7
Midlands Electricity (1990)		64.5	68.2	62.0	76.6	88.9	109.7	142.1

£ million
POST-PRIVATISATION

	1985	1986	1987	1988	1989	1990	1991	1992
Northern Electricity (1990)		48.1	48.7	47.1	58.0	66.1	89.2	
Norweb (1990)		53.9	59.5	53.3	65.8	75.8	70.3	
Seebord (1990)		47.6	57.7	44.0	58.0	57.6	81.4	
Southern Electric (1990)		69.2	92.5	79.4	113.8	128.2	139.6	166.3
South Wales Electricity (1990)		24.9	31.6	21.0	30.8	26.2	58.1	
South Western Electricity (1990)		47.6	45.6	32.2	55.8	66.1	66.2	83
Yorkshire Ellectricity Group (1990)		55.3	64.5	71.8	90.2	109.5	134.6	
National Grid (1990)						428.6	385.7	497.9
National Power						178	479	
Power Gen (1991) (9)						233.6	300.7	
Scottish Hydro-Electric (1991)							60.3	
Scottish Power (1991) (9)							144.7	259.9

PRE-PRIVATISATION (last full year in public sector)
All figures derived from Annual Reports and Accounts

(1) Current cost convention used
(2) Part of BNOC
(3) Effects of coal strike
(4) Nine months' figures only - trading commenced on 1 May 1983
(5) Now owned by British Petroleum
(6) Now owned by Ford Motor Company
(7) Includes profit as a result of acquisitions of Royal Ordnance and Rover Group
(8) Includes profit as a result of merger with Arlington Securities
(9) Profits while in the public sector are actual, not pro-forma
(10) New year end

Outline of Typical Steps to Privatisation

[Illustrative example *not* based on a particular case]

PUBLIC CORPORATION

Governed by statute

Loan financed

Public sector style administration

Some monopoly business

FEASIBILITY STUDY

Study undertaken by civil servants, merchant banks or management consultants

↓

BACKGROUND & OPTIONS

Report to Ministers on possibility, options and prerequisites of any sale

↓

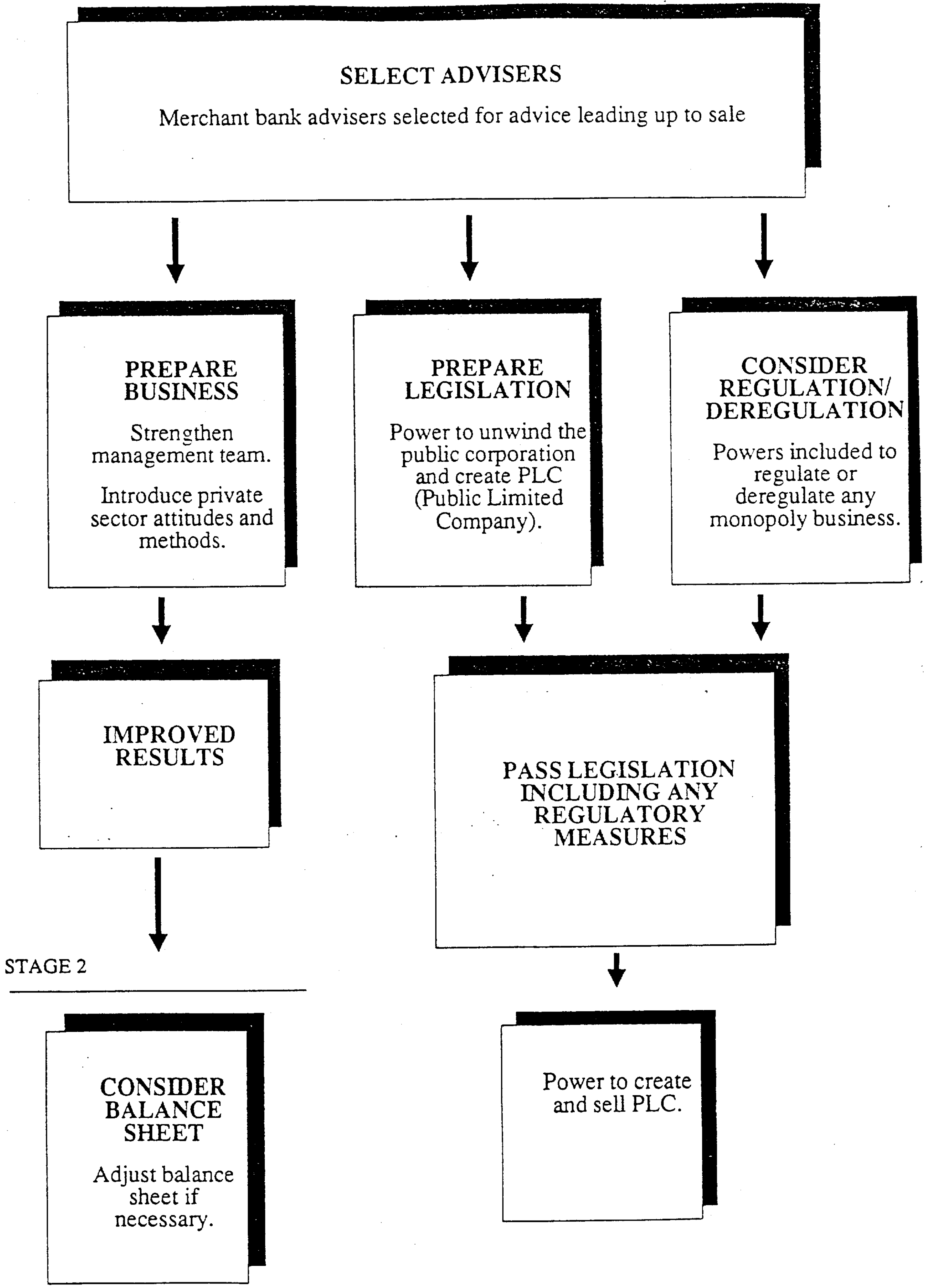
MINISTERIAL DECISION

Decision in principle to proceed, choice of option to be pursued.

In this example sale of the business as one unit by share flotation

↓

STAGE 1


SELECT ADVISERS
Merchant bank advisers selected for advice leading up to sale
PREPARE BUSINESS
Strengthen management team.
Introduce private sector attitudes and methods.
PREPARE LEGISLATION
Power to unwind the public corporation and create PLC (Public Limited Company).
CONSIDER REGULATION/ DEREGULATION
Powers included to regulate or deregulate any monopoly business.
IMPROVED RESULTS
PASS LEGISLATION INCLUDING ANY REGULATORY MEASURES
STAGE 2
CONSIDER BALANCE SHEET
Adjust balance sheet if necessary.
Power to create and sell PLC.

WELL RUN PLC WITH REASONABLE BALANCE SHEET

Companies act company debt/equity ratio sound.

Commercially orientated management.

Reduced monopoly power.

STAGE 3

SELECT/ RESELECT ADVISERS FOR SALE

Merchant Bank
Brokers, Solicitors
etc chosen for sale.

GOOD RESULTS

CHOOSE MARKET SLOT | **PRODUCE PROSPECTUS** | **BUILD IMAGE**

Decision taken on how many shares to sell, whether to underwrite sale, where to sell and how to fit sale in with other issues.
Consider producing pathfinder prospectus.

Advertising starts

FINAL DECISIONS

Final go-ahead given

Price decided

↓

SELL

100% sold

↓

STAGE 4

TRANSFER OF OWNERSHIP FROM PUBLIC SECTOR TO PRIVATE SECTOR COMPLETED

UK GOVERNMENT'S HOLDINGS OF SPECIAL SHARES

Company	Expiry date
Cable & Wireless	Non time limited
Sealink	Non time limited
BT	Non time limited
British Aerospace	Non time limited
VSEL Consortium	Non time limited
British Gas	Non time limited
Rolls-Royce	Non time limited
BAA	Non time limited
British Steel	31 December 1993
Anglian Water	31 December 1994
Northumbrian Water Group	31 December 1994
North West Water Group	31 December 1994
Severn Trent	31 December 1994
Southern Water	31 December 1994
South West Water	31 December 1994
Thames Water	31 December 1994
Welsh Water	31 December 1994
Wessex Water	31 December 1994
Yorkshire Water	31 December 1994
Eastern Electricity	31 December 1995
East Midlands Electricity	31 December 1995
London Electricity	31 December 1995

Manweb	31 December 1995
Company	Expiry date
Midlands Electricity	31 December 1995
Northern Electric	31 December 1995
Norweb	31 December 1995
Seeboard	31 December 1995
Southern Electricity	31 December 1995
South Wales Electricity	31 December 1995
South Western Electricity	31 December 1995
Yorkshire Electricity Group	31 December 1995
National Grid Company	Non time limited
National Grid Holding	Non time limited
National Power	Non time limited
PowerGen	Non time limited
Scottish Power	Non time limited
Scottish Hydro-Electric	Non time limited
British Technology Group	31 March 1997

SHAREHOLDINGS IN PRIVATISED AND FORMER GOVERNMENT-CONTROLLED COMPANIES

Company	Date of Privatisation	Size of share register: Initial	Highest since Privatisation	Current	Proportion of shares retained by HMG	Proportion and dates of subsequent disposals
British Petroleum	December 1977*	n/a	621,159 (Dec 1988)	550,821 (31 Dec 1991)	51%	¶5.17%/Nov'79: 7.12%/Sep'83: 31.5%/Sep'87: 0.09%/Oct'90 on 1.1.91 HMG held about 1.88%
British Aerospace	February 1981	27,179	120,200 (Dec 1986)	87,700 (31 Dec 1991)	48.43%	48.43%/10.5.85
Cable and Wireless	October 1981	27,320	210,994 (31 Mar 1986)	166,179 (31 Mar 1990)	50.64%	27.54%/Nov'83: 23.1%/Dec'85
Amersham International	February 1982	10,051	8,601 (Jun 1982)	5,904 (31 May 1991)	nil	
NFC	February 1982	10,300	42,000 (Oct 1988)	60,000 (Feb 1992)	nil	
Britoil	November 1982	37,257	245,556 (31 Dec 1985)	owned by BP	49%	49%/8.8.85
Associated British Ports	February 1983	37,205	12,321 (July 1989)	14,694 (26 June 1992)	48.5%	48..5%/17.4.84
Enterprise Oil	June 1984	13,695	14,166 (June 1985)	10,811 (31 Dec 1990)	nil	
Jaguar	July 1984	125,000	64,126 (Nov 1984)	owned by Ford	nil†	
BT	November 1984	2,139,520	1,649,722 (30 Nov 1985)	2,931,570 (1 Feb 1992)	49.8%	0.8%/Dec'87: 27.5%/Nov'91
British Gas	December 1986	4,407,079	3,112,000 (30 Apr 1987)	2,285,325 (31 Mar 1991)	3.3%	1.6/Jan'90: 1.6%/July'90
British Airways	February 1987	1.2m	450,000 (July 1987)	314,039 (15 May 1990)	2.5%	1%/Jun'87: 1%/Mar'90
Rolls Royce	May 1987	1,988,966	925,000 (Dec 1987)	640,055 (31 Dec 1990)	0.4%	0.4% sold during 1987
BAA	July 1987	2,187,500	1.35m (Nov 1987)	798,643 (1 June 1990)	4.36%	1.42%/Aug'90
British Steel	December 1988	650,553	419,727 (1 Apr 1989)	335,224 (30 Mar 1991)	0.05%	0.04% disposed of during 1989. On 12.11.90 HMG held about 0.002%
Water & Sewerage Companies	December 1989	2.65m§	1,318,352© (June 1990)	1,106,564© (27 June 1991)	1.62%	

SHAREHOLDINGS IN PRIVATISED AND FORMER GOVERNMENT-CONTROLLED COMPANIES

Company	Date of Privatisation	Size of share register: Initial	Size of share register: Highest since Privatisation	Size of share register: Current	Proportion of shares retained by HMG	Proportion and dates of subsequent disposals
Regional Electricity Companies	December 1990	8.6m§	n/a	3.4m© (20 Sept 1991)	n/a	
Generating Companies	March 1991	1.91m+	n/a	1.7m© (Jan 1992)	40%	
Scottish Electricity Companies	June 1991	1.81m#	n/a	2.1m© (Jan 1992)	3.5%	

NOTES

– For single company privatisations, these figures are not an exact guide to the number of shareholders because some shareholdings are held jointly in more than one name (eg for members of employee share schemes only the trustees are shown on share registers).

* HM Government obtained a majority holding in 1914 but this never reached 100%. The 1977 sale is shown as the first disposal of recent times.

¶These proposrtions do not sum to 51% because of rights issues.

† Subsidiary of BL plc.

§ The offer allowed for holdings by individuals in any or all of the companies in the offer and therefore holders may appear on more than one register.

+ The offer required public applicants to apply for shares in both companies.

The offer required non-customer public applicants to apply for shares in both companies.

EMPLOYEE PARTICIPATION IN GOVERNMENT SHARE SALES

Company	Date of sale	Total number of employees	Maximum value per employee of free, matching and discount offers	Free Offer	Matching Offer %	Discount Offer %	Preference in allocation %
British Petroleum	October 1979		£500	N/A	50	-	43
Cable and Wireless	October 1981	10,750	£300†	99	99	-	25
British Aerospace	February 1982	79,300	£499.20	89	41	-	1.6
Amersham International	February 1982	2,049	£546.70	99	80	-	40
National Freight Consortium	February 1982	24,500	£200 (interest free loan for share purchase)		36% of employees participated in the management/employee buyout		
Britoil	November 1982	2,527	£457.94	92	62	-	14
Associated British Ports	February 1983	9,000	£311.36	90	38	-	3
Enterprise Oil	June 1984	48	N/A	N/A (No free or matching offers)		-	71
Jaguar	July 1984	9,500	N/A	N/A (No free or matching offers)		-	19
British Telecom	November 1984	239,000	£478.40*	96	80	-	26
British Gas	December 1986	89,747	£649.45	99	85	48	
British Airways	February 1987	40,252	£595*	91	82	30	23
Rolls-Royce	May 1987	38,995 (UK)	£595.30*	96.1	76.8	36.1	22
BAA	July 1987	7,462	£502.25	98	91	-	60
British Petroleum	October 1987		N/A	N/A (No free, matching or discount offers)			
British Steel	December 1988	54,900	£644	94	94	11.2	11.2
Water plcs	December 1989	40,000	£745	94	73		17
Regional Electricity	December 1990	84,000	£828	97.7	83.4	41.1	23

EMPLOYEE PARTICIPATION IN GOVERNMENT SHARE SALES

Company	Date of sale	Total number of employees	Maximum value per employee of free, matching and discount offers	Free Offer %	Matching Offer %	Discount Offer %	Preference in allocation %
Generating Companies	February 1991	23,900	£828	98.8	89.6	54.9	40
Scottish Electricity	June 1991	15,047	£1,620§	96	85		70
BT	December 1991		N/A	N/A (No free matching offers)		-	24

NOTES:

† Value of shares at time of privatisation which HMG was to make available initially and over the life of the company's profit sharing scheme.

* Includes 10 per cent discount on shares applied for up to maximum value of £2000.

§ Includes 20 per cent discount on shares applied for up to maximum value of £1250.

COMPANIES	AMERSHAM INTERNATIONAL (1981)	BRITISH AEROSPACE (1981)	BRITOIL (1982)	CABLE AND WIRELESS (1981)	NATIONAL FREIGHT CORPORATION (1982)	CABLE AND WIRELESS (1983)
Primary Underwriters	N M Rothschild	Kleinworts Hill Samuel Morgan Grenfell Schroders	S G Warburg Baring Bros Schroders Kleinworts N M Rothschild	Kleinworts Baring Bros Schroders	N/A	Schroders Baring Bros Schrolders Morgan Grenfell
Financial Advisers	N M Rothschild (HMG) Morgan Grenfell (AMI)	Kleinworts (HMG and BAe)	S G Warburg (HMG) N M Rothschild (Britoil)	Kleinworts Baring Bros N M Rothschild	Schroders (HMG) Barclays (NFC)	Bank of England Warburgs (HMG)
Legal Advisers	Slaughter and May (HMG) Linklaters and Paines (AMI)	Slaughter and May (HMG) Linklaters and Paines (BAe)	Freshfields (HMG) Herbert Smith (Britoil)	Linklaters and Paines (HMG) * Speechly Bircham (C+W)	Freshfields	Freshfields (HMG) Speechly Bircham (C+W)
Auditors	Coopers and Lybrand	Peat, Marwick Mitchell and Co	Thomson McLintock	Deloitte, Haskins and Sells	Ernst and Whinney	Deloitte, Haskins and Sells
Stockbrokers	Cazenove	Hoare Govett	Rowe and Pitman Cazenove W Greenwell Hoare Govett Wood MacKenzie	Cazenove James Capel Rowe and Pitman	N/A	Mullens Cazenove James Capel Rowe and Pitman

* Share placing with a managemenr and employee consortium

COMPANIES	ASSOCIATED BRITISH PORTS (1983)	ASSOCIATED BRITISH PORTS (1984)	ENTERPRISE OIL (1984)	SEALINK (1) (1984)	BRITISH TELECOM (1984)	BRITISH PETROLEUM (1979)	BRITISH PETROLEUM (1983)
Primary Underwriters	Schroders Kleinworts	Schroders Kleinworts	Kleinworts Morgan Grenfell Schroders S G Warburg	N/A	Kleinworts Barclays Merchang Bank Charterhouse Japhet Robert Fleming Hill, Samuel Lloyds Bank International Ltd Morgan Grenfell S G Warburg Baring Bros County Bank Hambros Lazards Samuel Montagu N M Rothschilds Schroders	S G Warburg Robert Fleming Kleinworts Lazards Morgan Grenfel Schroders	S G Warburg Robert Fleming Kleinworts Lazards Morgan Grenfel Schroders
Financial Advisers	Schroders(HMG) Kleinworts (ABP)	Schroders (HMG) Kleinworts (ABP)	Kleinworts (HMG) Lazards (BGC)	Hill, Samuel (HMG) Morgan Grenfell (BR)	Kleinworts (HMG) Warburgs (BT)	Bank of England/ Warburgs (HMG)	Bank of England Warburgs (HMG)
Legal Advisers	Freshfields (HMG) Slaughter and May (ABP)	Freshfields (HMG) Slaughter and May (ABP)	Freshfield (HMG) Linklaters and Paines (BGC) Slaughter and May (Ent)	N/A	Linklaters and Paines (HMG) Slaughter and May (BT)	Freshfields (HMG) Linklaters and Paines (BP)	Freshfields (HMG) Linklaters and Paines (BP)
Auditors	Price, Waterhouse	Price,Waterhouse	Peat, Marwick, Mitchell & Co	N/A	Coopers and Lybrand	Ernst and Whinney	Ernst and Whinney
Stockbrokers	Greenwell Cazenove	Greenwell Cazenove Kitcat and Aitken	Cazenove De Zoete and Bevan	N/A	Hoare, Govett Cazenove De Zoete and Bevan Scrimgeour, Kemp Gee	Mullens Cazenove Hoare, Govett Scrimgeour, Kemp Gee	Mullens Cazenove Hoare, Govett Rowe and Pitman Scrimgeour, Kemp Gee

COMPANIES	JAGUAR (1984)	BRITISH AEROSPACE (1985)	BRITOIL (1985)	CABLE AND WIRELESS (1985)	BRITISH GAS (1986)	BRITISH AIRWAYS (1987)
Primary Underwriters	Hill Samuel Kleinworts	Morgan Grenfell Schroders Lazards Hill Samuel	Barings Schroders Kleinworts Morgan Grenfell Warburgs Lazards Rothschilds	Schroders Kleinworts County Bank Morgan Grenfell	Rothschilds Kleinworts Barclays de Zoete Charterhouse Robert Fleming Hill, Samuel Lloyds Morgan Grenfell Warburgs Barings County Hambros Lazards S Montagu Schroders	Hill, Samuel Lazards Barings Robert Fleming Lloyds Morgan Grenfell Schroders County Kleinworts S Montagu Rothschilds Warburgs Standard Chartered
Financial Advisers	Schroders(HMG) Hill, Samuel (BL)	Lazards (HMG) Kleinworts (BAE)	Lazards (HMG) Rothschilds (Brit)	Schroders(HMG) Kleinworts (C + W)	Rothschilds (HMG) Kleinworts (Gas)	Hill, Samuel (HMG) Lazards (BA)
Legal Advisers	Slaughter and May (Offer) Linklaters and Paines (BL) Coward Chance (Jag)	Slaughter and May (HMG) Linklaters and Paines (BAe)	Slaughter and May (HMG) Herbert Smith (Britoil)	Freshfields (HMG) Speechly Bircham (C + W)	Slaughter and May (HMG) Herbert Smith (BG	Slaughter and May (HMG) Linklaters and Paines (BA)
Auditors	Coopers and Lybrand	Peat, Marwick, Mitchell	Thomson McLintock	Deloittes	Price Waterhouse	Ernst and Whinney
Stockbrokers	Cazenove	Hoare Govett	Hoare Govett Cazenove Wood Mackenzie	Rowe and Pitman Cazenove	Cazenove Hoare Govett Wood Mackenzie James Capel	Cazenove Wood Mackenzie Rowe and Pitman Philips and Drew

NB The sale of Jaguar was conducted by BL plc who appointed the advisers, except for Schroders who advised the Government

COMPANIES	ROLLS ROYCE (1987)	BAA (1987)	BRITISH PETROLEUM (1987)
Primary Underwriters	Samuel Montasgu Barclays de Zoete Charterhouse Robert Fleming Hill Samuel Morgan Grebfell Standard Chartered Rothschilds Barings County Guiness Mahon Lloyds Schroders TSB	County Barclays de Zoete British Linen Robert Fleming Hambros Lloyds Rothschilds TSB Schroders Barings Charterhouse Guiness Mahon Hill Samuel Samuel Montagu Singer and Friedlander Warburgs	Rothschilds Barclays de Zoete British Linen County Natwest Hambros Kleinwort Benson Samuel Montagu Schroders Warburgs Barings Charterhouse Robert Fleming Hill Samuel Lloyds Morgan Grenfell Standard Chartered
Financial Advisers	Samuel Montagu (HMG) Rothschilds (RR)	County Natwest (HMG) Schroders (BAA)	Rothschilds (HMG) Warburgs (BP)
Legal Advisers	Linklaters and Paines (HMG) Freshfields (RR)	Allen and Overy (HMG) Herbert Smith (BAA	Slaughter and May (HMG) Linklaters and Paines (BP)
Auditors	Coopers and Lybrand	Touche Ross	Ernst and Whinney
Stockbrokers	James Capel (HMG) Hoare Govett (RR)	Cazenove (HMG) County Natwest Securities (HMG) Hoare Govett (BAA)	Hoare Govett (HMG) Wood MacKenzie (HMG) Warburg Securities (BP)

COMPANIES	BRITISH STEEL (1987)	WATER COMPANIES (1989)	ELECTRICITY (ENGLAND & WALES) (1990-1991)
Primary Underwriters	Rothschilds Barclays de Zoete Barings Hambros Robert Fleming Guiness Mahon Morgan Grenfell Warburgs County Kleinworts British Linen Schroders Standard Chartered	Samuel Montagu BZW Robert Fleming Guiness Mahon Kleinworts Lloyds Paribas Swiss Bank Corporation Rothschilds Barings County Nat West Hill Samuel Laing and Cruickshank Morgan Grenfell Standard Chartered UBS Philips & Drew Warburgs	Schroders BZW Barings Robert Fleming Guiness Mahon Hill Samuel Lloyds Morgan Grenfell Paribas Warburgs British Linen Bank Chartered West LB Charterhouse Bank County NatWest Laing & Cruickshank Rothschilds Samuel Montagu Swiss Bank UBS Phillips & Drew
Financial Advisers	Samuel Montagu (HMG) Barclays de Zoete Wedd (BSC)	Schroders (HMG) N M Rothschild (Water Services Association)	Kleinwort Benson (HMG) N M Rothschilds (RECs) Hill Samuel (NGC) Lazards (NP) S G Warburg (PG)
Legal Advisers	Norton Rose (HMG) Slaughter and May (BSC)	Clifford Chance (HMG) Herbert Smith (Water Services Association)	Slaughter and May (HMG) Herbert Smith (RECs) McKenna & Co (NGC) Linklaters and Paines (NP) Freshfields (PG)
Auditors	Coopers and Lybrand	Touche Ross	Touche Ross
Stockbrokers	Rowe and Pitman (HMG) Philips and Drew (BSC)	Rowe and Pitman (HMG) Cazenove (Water Services Association) Smith New Court (Water Services Association)	James Capel (HMG) N M Rothschild (RECs)

COMPANIES	SCOTTISH STEEL (1991)	BT (1991)	FORTH PORTS (1992)
<u>Primary Underwriters</u>	N/A	N/A	UBS Phillips & Drew
<u>Financial Advisers</u>	BZW (IIMG) British Linen Bank (IIMG) Charterhouse Bank (SHE) Samuel Montagu (SP) Noble Grossart (SP)	S G Warburg (IIMG) N M Rothschild (BT)	British Linen Bank (Company) S G Warburg (IIMG)
<u>Legal Advisers</u>	McGrigor Donald (IIMG) Clifford Chance (SHE) Dundas & Wilson (SHE) Freshfields (SP) Shepherd & Wedderburn (SP)	Linklaters and Paines (IIMG) Slaughter and May (BT)	Dickson Monto (issue) McGrigor Donald (Company)
<u>Auditors</u>	Deloitte Haskins & Sells Peat Marwick McLintock	Coopers & Lybrand Deloitte (BT)	Coopers & Lybrand Deloitte
<u>Stockbrokers</u>	de Zoete & Bevan (IIMG) Bell Lawrie White (IIMG) Smith New Court (SHE) UBS Philips and Drew (SP) Parsons Penney (SP)	S G Warburg (IIMG) Cazenove (BT)	de Zoete & Bevan

BRITISH PRIVATISATION - TAKING CAPITALISM TO THE PEOPLE

Article on the British privisatisation programme by John Moore (Financial Secretary to the Treasury 1983-1986). This article first appeared in the Harvard Business Review January-February 1992.

2. The worldwide collapse of state socialism has created a new inevitability - the rise of free economic institutions. The question facing nations around the world is no longer whether to introduce or expand the practice of capitalism, but only how to do it. While there is no blueprint for transforming a command economy into a free one, the experience of the United Kingdom since 1979 clearly shows one approach that works: privatization.

3. In the UK, privatization has accomplished wonders. By 1979 the borrowings and losses of state-owned industries were running at about £3 billion a year. But from 1989 to 1990, companies privatized by the Thatcher government fattened the government purse by some £2 billion.

4. Moreover (though this was not the principal reason for putting the companies into private hands), the sales themselves have generated considerable sums more than £34 billion to date. Along with a dramatically improved overall economy, these revenues made it possible to transform the UK's public sector borrowing requirement into a public sector debt repayment and to repay over a two-year period 12.5% of the net national debt.

5. In fact, privatization has shown itself capable not only of rescuing individual industries and a whole economy headed for disaster, but also of transforming public attitudes toward economic responsibility and the concept of private property.

6. Begun as a radical experiment, privatization works so well that it has become a practical process by which a state-owned industry can join the free market with visible, often dramatic gains for the industry, its employees, its customers, and for the citizens who set it free by purchasing its shares. More important, privatization has become an educational process by which the people of a country can grasp the fundamental beliefs and values of free enterprise.

Persuading the Doubters

7. When my party took office in 1979, we inherited an economy in serious trouble. It had been deteriorating for years, but in the 1970s the decline accelerated. We were convinced a major cause was the extent of government control over industry, because we saw then what the collapse of socialism has now made so apparent: state-owned industries will always perform poorly.

8. Yet to judge from the UK's experience in the early 1980s, governments planning privatization can expect opposition from politicians (including some in their own party), hostility within the industries to be privatized, resistance from the financial community, and bewilderment in the population as a whole.

9. In 1983, the British Conservative government was coping with a number of formidable political problems - high unemployment and the aftermath of recession among them. Many of my ministerial colleagues and a number of Conservative members of Parliament thought a policy as controversial as privatization should be put on the back burner. What was the purpose, they asked, of stirring up yet another hornet's nest? The purpose, of course, was to improve the UK economy dramatically and so help to solve those other problems - and that is indeed what happened.

10. But at the time, privatization had yet to prove itself. The general public knew little about capital markets and was sceptical about what privatization actually meant. The media were given maximum coverage to concerns about national and consumer interests. And two early, highly controversial privatizations were under bitter attack from all sides for being overpriced (Britoil was hit by the collapse in oil prices) or underpriced (Amersham International, which made radioactive materials for industry and medicine, had no market equivalent and was therefore uniquely difficult to price).

11. We did our best to present the intellectual case for privatization in speeches, meetings, seminars and briefings with politicians, financiers, businesspeople, and journalists - and we tried to educate voters on privatization's potential benefits for the industries involved and the country as a whole. We felt it was particularly important to allay the fears of employees in state-owned industries.

12. At the same time, we knew the quickest and most effective way to overcome scepticism would be to carry out a very big, very successful, and very visible privatization. This we did with the sale of British Telecom in 1984, the largest public flotation the world had ever seen.

13. The financial community offered some of the stiffest resistance: they doubted the capacity of the capital markets to absorb such a huge offering, and they were not keen to expand that capacity by extending share ownership to the ordinary public. I remember one particularly acrimonious meeting at which I was extolling the virtues of wider share ownership when the head of a large brokerage house suddenly realized what I meant. "But John", he said in a shocked voice, "we don't want all those kind of people owning shares, do we?"

14. Many politicians and financiers doubted whether ordinary people would ever be able to understand equity share ownership or whether (and this, remarkably, is an argument still heard) it is "right" to let them take risks with their money.

15. People with misguided, patronizing attitudes like these are rarely swayed by verbal arguments. But the actual British Telecom sale became a wonderful persuader. Before BT, the world's biggest equity

sale had been a secondary offering of an already existing company - AT&T - at just over $1 billion. We planned to sell more than 4 billion (then about $5 billion) worth of BT shares. Conventional wisdom maintained that it simply couldn't be done.

16. But it was. And not just sold - it was nine times oversubscribed. More than two million people wanted to buy shares in British Telecom, demonstrating.in the clearest possible manner that ordinary people understand what capital markets and equity ownership are and that they have an appetite for both. Perhaps even more significant, more than 90% of BT employees bought shares in their own company. Since that watershed British Telecom sale, every UK privatization offering has been oversubscribed.

The Failure of State Ownership

17. The extent of state control in Britain never approached the command economies of Eastern Europe, but by 1979 it was still sizeable. Since World War II, successive Labour governments had nationalized the coal industry, the steel industry, electricity generation, gas supplies, railways, docks, canals, and trucking. The government owned virtually the entire telecommunications industry, along with aircraft and shipbuilding, much of car manufacture, North Sea oil, and even silicon-chip production.

18. The overall performance of these industries was characterized by poor - in some cases negative - return on capital, low productivity, high costs, high prices, bad labour relations, inefficient use of resources, and unsatisfactory service to customers. It was not the quality of the work force that produced these ills; there were people of talent and energy at all levels of the nationalized industries. The nature of state ownership itself was to blame, because state ownership inescapably produces poor performance.

19. To begin with, the priorities of elected politicians are different from and often in conflict with the priorities of effective business managers. Yet in state-owned industries, politicians are in charge, which means that whenever politicians cannot resist getting involved in what should be management decisions, political priorities take precedence over commercial ones. Politicians may overrule commercial judgments in order to build a new factory in an area where voters need jobs, or they may refuse to close an uneconomic plant. They can become involved in policies affecting hiring and the size of the work force. Moreover, political time frames, governed by elections, are often incompatible with the longer time cycles that business needs.

20. This is not to say that political objectives are somehow spurious. Matters affecting employment, for instance, are proper concerns for elected politicians. But a concern for jobs that overrides the need for an industry to remain competitive not only damages the industry, it can cause even greater job losses in the long run.

21. Politicians have found it particularly difficult to resist interfering in the pricing policies of state industries, which is especially damaging when it distorts the operation of the market. A good, if grim, example occurred in the early 1970s when British Gas Corporation bowed to

political pressure and artificially held domestic prices down to avoid the effects of the OPEC oil shocks. But low gas prices undercut the competitive position of the electrical utilities, which burned coal. This, in turn, contributed to problems of excess capacity in the electricity industry and to the coal industry's surplus production and stocking problems. Gas shortages developed, forcing British Gas Corporation to turn away new industrial business and adding to the pressure to import more gas. Meanwhile, domestic consumers abandoned their electric night-storage heaters, which used off-peak power at a lower cost, and switched to gas, not realizing that no government could afford to let the industry sustain the artificially low gas price indefinitely. Eventually, of course, gas prices rose painfully to catch up with the market, and the whole system unwound in the opposite direction.

22. The conflict between commercial and political objectives is particularly visible in the financial dealings of nationalized industries because state ownership restricts their access to capital in several critical ways. For example, their claims on public money must compete with demands for new hospitals, schools, roads, and all the other electorally popular claims on government funds - and it is elected politicians, not businesspeople, who make the choices about where to spend or invest tax revenues.

23. State ownership also limits an industry's ability to look elsewhere for loans and investment. When a state-owned enterprise borrows money, the government underwrites its loans, which makes them indistinguishable from all other forms of public sector borrowing. Since the government's first responsibility must be to the economy as a whole, and since there are inevitably times when the needs of individual state enterprises must take a backseat to macro-economic requirements, politicians must often curtail the ability of state industries to borrow.

24. As for investment, state ownership means that industries can never attract genuine risk capital. It is no solution to say, "Let's pretend they are *not* in the public sector". Investors understand reality and will not choose to put risk capital where it cannot reap the rewards of true equity ownership.

25. Eliminating all these constraints by means of privatization has the added benefit of making industries compete for loans and risk capital. This competition is in itself a strong impetus to improve performance. Any enterprise wishing to attract capital is subjected to the hard questions of financiers and analysts who are excellent judges of how effectively a company uses its resources - and how likely it is to survive the discipline of the marketplace.

<u>Survival and Self-Interest</u>

26. The lack of this discipline of the marketplace is another reason state-owned industries perform poorly. The plain, if unpalatable, fact is that nationalized industries do not have to succeed in order to survive, and everyone working in them knows it. State industries are dependent for their survival on the government, not the market. Financiers and analysts never ask their hard questions, and that eliminates an important spur that would otherwise drive private industry to innovate,

increase productivity, improve efficiency, and do its utmost to meet consumer needs.

27. The spur I mean is not just the hope of greater rewards, but also the ever-present possibility of failure. This is what the phrase "discipline of the market" actually means: the chance of going bankrupt, broke, out of business, belly-up. When an entire industry knows that the government will always pull its fat from the fire, the result is inertia, inefficiency, and scant attention to the wants and demands of consumers.

28. To take just one example: before privatization, the British Gas Corporation had a monopoly on the sale of gas kitchen appliances, and their retail outlets were not even listed in the telephone directory!

29. In state-owned industries there is no incentive to serve the customer - no reward for doing it well, and no punishment for doing it badly. State industries simply ignore self-interest as a motivating force, and one does not need to be a cynic about human nature to predict the outcome.

30. This failure to harness the power of self-interest is, I think, the most important reason nationalized industries perform so poorly. Self-interest is not some evil attribute to be repressed; it is simply the urge people have to improve their lot, to make things better for themselves and their families. It has been the engine of progress since the dawn of time, and to pretend otherwise is to ignore one of the most powerful forces available for improving the quality of life.

31. The philosophers of the public sector have always explicitly denied self-interest as a motive for employees and managers in nationalized industries. But you cannot abolish self-interest by denying it. The managers of state-owned industries quite naturally want their organizations to grow and thrive. But in a nationalized industry, this outcome is not dependent on customers, it is dependent on government policies. Managers therefore look to the government, and the government looks back, all in a sort of producer-orientated closed circuit in which the consumer does not figure and where no one gives market signals the attention they deserve.

32. Yet markets are not static even if producers are. Buying patterns inevitably change in favour of those who best satisfy and anticipate consumer needs. When producer-orientated state industries find their share of the market dwindling and their competitive position deteriorating, their usual reaction is to make more urgent demands on the government for increased investment, subsidies, and plain handouts.

33. Moreover, when state-owned industries occupy a dominant position in a nation's economy, producer-orientated attitudes spill over into the private sector as well. I remember a startling experience at the beginning of the Conservative party's first term in office in 1979, right after we had campaigned and won on a platform stressing enterprise, the free market, and less state involvement in industry. One of the first groups to visit me as Minister for Coal was from the Association of British Mining Equipment Companies. Mining equipment companies were not state-owned, but the coal industry was. My visitors pressed for increased government subsidies to the coal industry so it could buy ...

more equipment. Their mind-set was typical of much of British business at the time: to do more business, you had to do more business with the government - not in the marketplace.

The Power of Ownership

34. These three factors - the subordination of commercial to political objectives, the fact that survival is not dependent on success, and the failure to harness the power of self-interest - are the root causes of the poor performance of nationalized industries. Because these ills cannot be cured as long as the industries remain in government hands, the only solution is to privatize them.

35. In the UK, the newly private companies have justified our beliefs with better performance in every area - profits, productivity, labour relations, and customer service. At British Airways and British Gas, for example, productivity per employee has risen by 20%. At Associated British Ports, labour disruptions common in the 1970s and early 1980s have now virtually disappeared. At British Telecom, the overall call-failure rate has dropped from 1 in 25 to 1 in 200, and there is no longer a waiting list - as there always was before privatization - to have a telephone installed. BT's public telephones are more accessible as well. It used to be a real challenge to find one that worked. Published statistics indicated that 75% were " operational" in the 1980s, though anyone looking for a call box in an urban area would probably have disputed that figure. Now 96% of public telephones work, and there are many more of them.

36. The UK's experience clearly shows that privatization improves the performance of state-owned industries and encourages the more efficient use of resources throughout the economy. But improved performance is only the first of three arguments for privatization that the British experience illustrates. The second is the extension of individual ownership and the transformation it produces in public attitudes. The third, which I will return to in a moment, is the way privatization induces government to re-assume its proper regulatory function.

37. In theory, it would have been possible to privatize state-owned industries in Britain without extending direct equity ownership to the massive numbers of ordinary people who have in fact bought shares. The industries could have been sold to the big institutional investors who formerly made up virtually the whole of the UK's equity market. But spreading ownership as widely and deeply as possible was an integral part of our privatization policy - and for several good reasons.

38, On the most obvious level, a visible change comes over workers when they become part owners of their companies through employee share-ownership plans. The National Freight Consortium is an interesting example. Shortly after the employee buyout, charts went up in NFC depots all around the country showing the movements in share price. In fact, the company's new owners grew so concerned about profitability that during wage negotiations they actually pressed their union to lower its wage demands.

39. When people have a personal stake in something, they think about it, care about it, work to make it prosper. People want to own property, and they fully appreciate the value of equity ownership as a flexible capital asset. Most people own very modest numbers of shares, but whatever they own often represents their first source of income beyond an otherwise total and, for many, frightening reliance on their weekly pay. The tiny group of individual shareholders in 1979 - barely 7% of the British population - has grown to more than 25% in 1991.

40. Yet one of the more revealing aspects of the privatization process in Britain was the bitterness with which opponents resisted all attempts to spread ownership. Attacks on privatization featured accusations of "selling the family silver" and other attempts to imply that people were being robbed of something they already owned. Trade unions in particular tried to dissuade their members from buying shares in the companies they worked for. But employees of state-owned industries responded enthusiastically to the offer of shares: at British Aerospace, 89% of the eligible work force bought shares; at Associated British Ports, it was 90%; at British Telecom, 96%; at both Amersham and Cable & Wireless, 99%.

41. Personal ownership assumes even greater importance in former socialist and communist states where individuals have never owned assets. If I were a privatization consultant to any nation, particularly an ex-socialist nation, I would recommend that the widest possible extension of individual ownership be a central part of their programme. Owning private property has an unrivalled power to teach the responsibilities and rewards of a free society.

42. But I would also advise against giving shares away free. This suggestion is made repeatedly as a quick way to put public industries into private hands with a minimum of fuss. Yet it misses Thomas Paine's point that "what we obtain too cheap we esteem too lightly". In order for the far-ranging benefits of individual ownership to be achieved by owners, companies, and countries, individuals must make their own decisions to buy - and they must commit some of their own resources to the choice.

The Proper Role of the State

43. The third great benefit of privatization - after improved company performance and broadened ownership - is the way it forces everyone involved to think about the state's role as regulator rather than owner.

44. When the government owns, an owner's concerns dominate its thinking. If we look at parliamentary records for the 40-year period after World War II - when nationalization was at its peak - we see that debates on the state-owned industries all focused on such things as investment needs, losses, debts, labour relations, and strike records. Little time was spent on Parliament's more diffuse obligation to protect consumers.

45. Beyond the debates, however, the entire parliamentary process - indeed, government itself - focused on the management of industry. It could not be otherwise when departments were the actual sponsors of

particular companies, when individual ministers had to champion their industries against the Treasury, when whole teams of civil servants had to work full-time dealing with industrial problems and arguing with managers: Should this shipyard in an area of high unemployment be closed? Where can we find more money for investment? How can this damaging strike in the auto industry be settled? The pressures on the state-as-owner were immediate and very visible.

46. Individuals complaining of poor service simply did not generate the same urgency. When a constituent had a problem with a nationalized industry and brought it to me - or to any other member of Parliament - our procedure was to take the matter up with the responsible minister or directly with the head of the industry, who would almost invariably respond that of course they could easily resolve this particular problem at once, if only their industry were not hamstrung by the stinginess of government in terms of investment-subsidy-expenditure. Since ministers then usually felt compelled to defend the government's spending record, the debate would proceed along predictable lines, and the constituent's problem would remain unresolved - in fact, unaddressed.

47. All of which simply goes to illustrate a fairly obvious truth: the owners of an industry are more interested in their own problems than in those of the electorate.

48. This shift in the government's stance from that of owner and provider to that of watchdog and regulator has had profound significance. Now elected politicians can vigorously protect their constituents' interests. Now parliamentary debates are about service to customers, not the needs of the industries. Now my letters to the executive officers of privatized industry about constituent problems receive answers aimed directly at the problem raised, usually with solutions. Now when the government is called upon to make decisions affecting these industries, it consults the interests of consumers first. Would the government, as owner of British Airways, have allowed United and Delta to fly into Heathrow and sharply increase competition and consumer choice? Hardly.

Securing the National Interest

49. In my view, the argument about state versus private ownership of industry in the UK is over. Private ownership has won, and debate has come to centre instead on the theory and practice of regulation. The reason that the political contest over privatization came to an end is simply that implementation succeeded. Facts overtook the debate.

50. In the course of successful implementation, however, we confronted innumerable problems and joined several heated disputes that have useful lessons to teach those now fighting or about to fight similar battles. To begin with, any government thinking of moving important industries from the public to the private sector will confront a number of specific anxieties expressed as concerns for the national interest. The opponents of privatization will raise fears about foreign involvement and possible foreign control, about endangered revenues and strategic supplies, about the survival of uneconomic but socially necessary services. The list will be long, and most of the issues raised will be

perfectly legitimate matters for a responsible government to worry about.

51. The mistake made by those who raise these fears as obstacles to privatization, however, is in assuming state ownership to be the only remedy. It is entirely possible for a government to protect and defend any aspect of any industry without owning it, either through provisions in the privatization legislation or simply through the use of normal government powers. Revenue is an obvious example. Government does not need to own a successful industry for the nation as a whole to benefit. Taxing its profits is an even more effective expedient, especially since state ownership can make those profits disappear.

52. A democratic government that correctly decides it is inappropriate to own a particular industry has in no way abdicated its responsibilities as guardian of the public interest. Democratically elected governments make and enforce the laws within which free societies operate, and this - not ownership - is government's proper role.

53. Analyzing each of the issues presented as a "national interest" concern is a key part of the preprivatization process. Often such scrutiny will reveal, as in the case of revenue and tax, that ordinary government procedures are already sufficient to deal with the supposed problem. When they are not, the solution in the UK is to define sharply the nature of the endangered interest and to vest its protection in a so-called special share held by the government.

54. Amersham International is a case in point. At the time we privatized it, Amersham was the only company in the world supplying certain radioactive medical and industrial products, and many people were worried about a possible immediate takeover. We therefore wrote a time-protection factor into Amersham's articles of association stipulating that the company could not be taken over for at least five years. The government then retained a newly created "special share" of Amersham, giving it the power to prevent any one person or group from acquiring more than 15% of the company's voting share capital - as well as the right to veto any material disposal of assets or voluntary closure of the company.

55. Special shares of this kind have proved to be a useful mechanism. They are <u>not</u> a form of disguised state control. They are always tied to one or more specific provisions in a company's articles of association; they do not carry voting rights; they do not give the government control over a company's activities except in the specified area; and they confer no right to interfere in management decisions. But they are an effective way to resolve concerns about the national interest.

56. They also underline the need to pass individual legislation for each privatization. Some countries have tried to pass omnibus bills covering the transfer of all state-owned industries to the private sector, but catch-all bills cannot allow for individual provisions and prove to be hopelessly unwieldy in parliamentary terms. Legislatures must tailor each privatization not only to protect the national interest but also to ensure that only matters of national interest are made subject to state control.

57. The point of the entire exercise, after all, is that ownership should actually pass from the public to the private sector. Some countries have thought they could obtain the benefits of privatization by selling a minority share of a state-owned industry while the government retained the majority holding. Such sales are entirely contrary to the true purpose of privatization and will bring neither the improvements in performance nor the changes in attitude that are so essential.

Securing Consumer Interests

58. Another set of public anxieties focuses on service, price, and quality. Since competition is always the best way to keep prices down and quality and service up, it is the free market that best protects consumer interests after privatization. Therefore, one of government's principal roles in the continuing implementation of privatization is to make and enforce the rules that keep the market open and the competition real.

59. Monopolies, however, present special problems. Privatization by itself does not open a monopoly to competitive pressures; yet without competition, a privately owned utility, say, can abuse its monopoly power and indulge its monopoly indolence in much the same way its state-owned predecessor could. In cases where no competition existed, we have had to devise a substitute.

60. This substitute consists basically of licences and regulatory agencies to supervise the licences. But the regulatory agencies we developed have broader prerogatives than most. Public concern about the possible abuse of monopoly power focuses specifically on pricing, levels and quality of service, and the provision of uneconomic but socially necessary services and facilities. So the licences and the work of the regulators also focus precisely on these points.

61. Four main utility sectors have been privatized so far and now operate under licences supervised by government-appointed but independent regulators: telecommunications, gas, water, and electricity. In addition, the British Airports Authority has been privatized to operate under a licence supervised by the Civil Aviation Authority.

62. With regard to pricing, there is a formula for each industry that functions as a stand-in for what real competition would do. It makes certain that consumers are not fleeced, and it forces companies to use their resources efficiently. The formulae require utilities to base their prices on the retail price index, plus or minus an adjustment derived from a basket of agreed-upon factors such as the need for capital investment, maintenance and fuel costs, service quality, reasonable profit levels, and the provision of socially necessary services. Periodically, each regulatory agency reviews the factors and the plus-or-minus adjustment - which, by the way, we call the "minus formula", since the regulatory agencies consistently set it below the general rate of inflation.

63. With regard to service levels and quality, the licences set clear performance targets that must be met. They also include specific

requirements to maintain indispensable facilities and services, however uneconomic. British Telecom, for example, is required by its licence to provide the 999 emergency service and to maintain public pay telephones even in uneconomic rural areas.

64. Licences and regulatory agencies are not the ideal way to protect consumer interests and force companies to use resources efficiently. The ideal way is for companies to have to maintain their share of a competitive market. Yet even where competition is impracticable, it is still possible to combine the elimination of state ownership with an effective attack on the problems of monopoly supply. By relieving the state of its obligations as owner, privatization frees the government to create and manage the mechanisms that must stand as proxies for competition.

Securing the Sale

65. The single most critical step in implementing a privatization programme is actually selling the industry in question. Here too, problems and conflict seem unavoidable.

66. Price and demand are the two pivots around which all sales revolve. The British experience suggests that any discussion of price should start with the realization that critics will always say you got it wrong. If your offering is oversubscribed, they will say it was priced too low; if it is undersubscribed, they will say it was priced too high. Whatever the price, they will refuse to believe that privatization has any purpose other than filling the state's offers.

67. The best advice is to ignore the critics and draw instead on lessons learned through more than a decade of actual privatization experience. Each new sale around the world contributes something to the store of knowledge on which all countries can drawn. In the UK, for example, we have already wrestled with the problems of how to put a commercial value on an entity that has never existed in the commercial world. We have also had to uncover and illuminate value concealed by inefficient management - or by political interference.

68. In the initial stages, we felt very much at the mercy of bankers and brokers and wondered if they were giving us the best possible service. To make sure they were, we turned to the traditional mechanism for improving performance: competition. We required banks and brokers, much to their annoyance, to bid for government privatization business. Sine then, the cost to the government of financial services on privatizations has gone down substantially.

69. Another important factor affecting price is the kind of sale. A fixed-price sale has the advantage of simplicity but is also dangerously vulnerable to outside events (the classic example is Britoil). Financial professionals usually prefer tender offers, but our view has been that tenders are likely to deter small investors. In an effort to gain the best of both kinds of sales, we devised a system in which small investors buy at a fixed price and institutions submit tenders. These mixed sales have been very successful.

70. Demand is the second pivot of a successful sale, because predicting demand is critical in deciding what price to put on the shares. Yet how much demand any sale will stimulate depends to a great extent on public attitudes toward share ownership.

Reselling Private Ownership of the Means of Production

71. Governments that want to implement privatization programmes must do more than combat explicit opposition. They must also try to eliminate implicit and systemic resistance to such capitalist mechanisms as free markets and private ownership. They need to examine their tax regimes, for example, to make sure they offer incentives and not impediments to investment. They also need to take a hard look at the attitudes and assumptions prevailing in their educational systems. In the UK, basic information on the free-market economy was simply not taught. Worse, the schools conveyed a sense that there was something not quite nice about the entrepreneurial spirit.

72. To succeed in countries with socialist traditions, privatization must be part of a wholesale cultural revolution. The good news is that privatization itself, by putting equity ownership into the hands of citizens, is one of the most effective ways to promote such a revolution.

73. We learned this good news in the UK when a practical need and a political objective met and were married to achieve a remarkable result. The practical need was to sell the massive offering of British Telecom - more new equity than had ever been sold at any one time before. The political objective was to alter public attitudes toward the very concept of the private ownership of industry - by radically extending the market for equity to people who had never bought or even thought of owning shares.

74. In the case of British Telecom, no one doubted the practical need. We had to sell an offering worth £4 billion, although financial professionals kept telling us that the capacity of the entire market for all new equities was only £2 billion. The solution - to extend the market hugely and bring in masses of new buyers - met resistance of all kinds. There was the snobbish sort referred to earlier. There was resistance from British Telecom itself, which was not keen to service a lot of small shareholders. There was even resistance from the Treasury, which thought it would cost too much to expand the market in such a dramatic way.

75. Even when the experts grudgingly admitted that we would have to open up a new market, there were bitter battles over how best to do it. One of the sharper conflicts was over a proposed inducement to small investors that we called the small shareholders' bonus. It offered additional shares - 10% of the original number - to a carefully defined category of small shareholders who kept their shares for three years.

76. The idea was greeted with scorn. If the lure of share ownership was not sufficient to induce purchase in the first place, why would the prospect of more in three years have any effect? The idea's detractors wanted instead to offer vouchers that buyers could use to reduce their telephone bills. But vouchers, though probably effective as a

straightforward sales-promotion gimmick, missed entirely the point of the bonus, which was to encourage long-term shareholding.

77. Studies of shareholder behaviour have shown that when new owners hold their stock for a reasonable period, they develop an investment turn of mind. They begin to take a real interest in company performance and in the possibility of owning shares in other companies. From the company point of view, small, interested shareholders who keep their shares for some years constitute a new kind of investor. They watch the company's performance with different eyes and quite different expectations than the large institutions whose main concern must be the overall performance of their portfolios. In any case, the system as a whole benefits from a more diverse mix of investors.

The vouchers-versus-bonus battle was long and fierce. But as we could show that the small shareholders' bonus would be effectively cost-free if it succeeded in stimulating enough demand, we finally won grudging agreement to let purchasers choose either the bonus or the telephone vouchers. In fact, two-thirds of the two million people who subscribed to British Telecom opted for the small shareholders' bonus, and it has been a feature of most UK privatizations ever since.

... And Standing Privilege on Its Head

79. Several other important innovations grew from the fortuitous meeting of the need to sell British Telecom and the political wish to extend share ownership - and virtually all of them provoked stormy debates when first proposed. I remember especially the allocation meeting where we decided which of more than two million hopeful subscribers would get the shares they asked for. The meeting began in an exuberant mood - after all, this sale that "couldn't be done" had been nine times oversubscribed. But sharp differences soon surfaced. Many at the meeting insisted on a format called "proportionate scaling": big subscribers would get all or at least most of what they asked for, while small subscribers - individually unimportant, often first-time investors - would get little or be left out altogether.

80. Had this happened, I believe it would have been a serious blow to the brand-new, still tentative interest in share ownership we had worked so hard to encourage in ordinary people. But it did not happen. After an exhaustive debate lasting several hours, we radicals won. We decided for the first time ever to reverse tradition and stand proportionate scaling on its head. The very smallest applicants, those who asked for only the minimum number of shares, were given absolute priority and got all the shares they asked for. As applications grew larger, the proportion awarded grew smaller. Even more radical, there was a cut-off point above which no shares were allocated at all, which meant the very biggest subscribers got none. The financial sophisticates at the meeting predicted that the wrath of big subscribers at this treatment would ultimately destroy the privatization program. But nothing of the sort has occurred.

81. Another important innovation to extend share ownership is the claw-back mechanism, which was also violently opposed. In some offerings, a certain number of shares are allocated in advance for small investors, while the rest are set aside for big institutions. Claw-back

provides for an increase in the number of shares allocated to small investors if they subscribe in very large numbers - the increase to be taken from the institutional allocation.

82. Yet another innovation that financial conservatives opposed was the policy, now well established, of allowing instalment purchase of privatization shares. Subscribers can make small initial down payments, receive their shares, and pay the balance over an extended period.

83. Throughout the privatization programme, every offering has also included special provisions to encourage employee share ownership - usually a limited number free to employees, plus a guaranteed provision for purchase. More than 90% of the employees in privatized industries have seized the opportunity to become shareholders.

84. Next to ownership itself, however, the innovation that may have the greatest long-term impact is the information revolution brought on by our determination to make industrial shareholding commonplace. Of course each proposed privatization had its prospectus, but a formal prospectus can be a daunting document. So we created the "Pathfinder Prospectus" and the "Mini Prospectus", which present the key facts for potential investors in a form accessible to non-professionals. Most revolutionary of all, we advertised on television, radio, billboards, and throughout the print media to bring each offering to the attention of the widest possible public.

85. The ultimate result is that people of all kinds have bought shares in British Gas, British Telecom, British Airways - in all of the 46 major companies privatized in the UK to date. About two-thirds of the state sector has been transferred to the private sector along with more than 900,000 jobs. And the proportion of individual citizens holding shares directly has risen from barely 1 in 14 to 1 in 4.

86. Close to 11 million people in the UK now own shares directly - that is, not through a pension fund or unit trust. We wish the number were higher, but professional financiers still seem to regard unit and investment trusts as the only proper vehicles for individual shareholding, and the actual business of making and trading personal investments remains unnecessarily cumbersome. For this reason, the government is encouraging a chain of storefront "share shops" to promote and simplify the sale of privatization equities. It represents the latest, but probably not the last, effort in an overall political policy to increase private ownership in every sphere - and to make it possible for everyone to participate in free capital markets.

87. Politics aside, our policy of democratic privatization has had the effect of increasing the capacity of the equity market beyond even optimistic expectations. In 1984, financial opinion held that the total capacity of the market to provide new equity was £2 billion. Yet in the single fiscal year 1988-1989, privatization issues raised £7 billion.

88. Without our determined policy of widening the market for shares, large-scale privatizations could hardly have succeeded. But widening the ownership of industry is an end as well as a means. Indeed, the issue of ownership lays bare the philosophical divide between those

who seek to concentrate power, wealth, and decision making into the hands of the state, and those who believe in spreading them so that more and more people will have a genuine stake in the community.

89. The great wave of reform that has swept the world in recent years offers the best hope this century for millions of people to escape from tyranny into democracy and freedom. But if that hope is to become reality, much work is needed to rebuild - in some cases, to build for the first time - the capitalist institutions necessary to a free society. Chief among these are the free market and individual ownership. Both are inseparable from liberty, democracy, and the improving living standards democracy requires to survive.

FINANCIAL SECRETARY'S SPEECH TO THE ASSOCIATION OF PRIVATE CLIENT INVESTMENT MANAGERS AND STOCKBROKERS ON 16 MAY 1992

STOCKBROKERS MUST SEEK THE MASS MARKET

Ladies and Gentlemen, I am delighted to be here and to have the opportunity to speak to you this afternoon.

2. The theme of your conference is the development of the securities industry, and I see that I am billed as providing "the Government view". I would like to start by saying setting that view in its wider context.

3. Phrases such as "property owning democracy" and "popular capitalism" are much used. but why <u>does</u> the Government attach such importance to broadening and deepening ownership in our society? Why do we emphasise the need to create an environment in which everyone has an opportunity to acquire wealth and to retain it?

4. Wider share ownership is not a peripheral concern - a bolt-on goodie that is incidental to our main purpose. The extension of property ownership is at the heart of this Government's approach.

5. For earlier generations the development of property ownership centred on the extension of house ownership. At the start of the century only one dwelling in twenty was privately owned. The position has dramatically changed. The figure today is two in three. That change is partly the result of government incentives, but it chiefly reflects the expression of will of millions of people who wanted the satisfaction and independence that comes with home ownership.

6. Our initiatives have of course helped. When we introduced the right-to-buy our opponents claimed we were wrong to provide new opportunities for ownership to the millions of people who have subsequently bought their houses. They suggested that the new owners would not be able to maintain their houses properly. Today it is clear that nothing could be further from the truth. Visit any council estate in transition and it is always easy to recognise those houses which have been transferred to the private sector. Out has gone the regimented look of entire estates with doors painted the same colour. Out has gone the all too common air of neglect. In has come the new porch, replacement windows, the new front door.

7. But property isn't confined to housing. Housing is only one form of asset and if ownership is to be dispersed throughout society we must now look for a widening of the ownership of financial assets in the coming years to match the earlier widening of home ownership. A vibrant mass market in shares is still a relatively new concept in Britain, but success in developing it holds the key to social changes at least as

fundamental as the social change wrought by the development of mass home ownership. Why? It is important to be clear.

8. Firstly, it promotes independence: the return which results from the ownership of a stake in a successful enterprise, either directly or indirectly, perhaps through unit trusts, can provide a degree of financial independence and opportunity undreamed of by many people's parents.

9. Secondly, it diffuses power. Lots of little decisions are taken rather than a few big ones.

10. Thirdly, it transforms employee attitudes: owning a share in their company means that an employee is not then just working for the remote shareholders, but is also working directly for himself if he can make the company grow or more profitable.

11. The case for wider ownership of property, including shares is - of course - partly based on economics, and there is indeed an evidence which supports the importance of efficient technical markets. But that is not the whole story. The disposal of property ownership is fundamental to the creation of a free society. It promotes independence, it encourages self-confidence, it diffuses power and it strengthens accountability.

12. The principle of property ownership is what distinguishes societies built to serve their citizens from collective societies where the rights of the individual come a poor second.

13. The benefits of this approach are evident from the privatisation programme. To take Britain's largest privatised company as an example: BT's main prices have fallen by about 27 per cent in real terms since privatisation and are continuing to fall; but service standards have improved. 96 per cent of payphones now work compared to 77 per cent fifteen years ago - and since privatisation there are nearly 25 per cent more of them. All of this from an organisation which in the 1970s featured in the Guinness Book of Records as the world's largest loss making company.

14. And at the other end of the scale, think back to that one-time nationalised industry, the National Freight Corporation. A company whose market share in the early 1980s was in decline. But a company which privatisation and the power of share ownership have transformed from an under-performing operation with a de motivated workforce to the successful, international, FTSE-100 company that it is today. As the company would tell you, it is no coincidence that National Freight Corporation is employee owned. Its increasingly powerful performance - profits before tax have grown at a rate of 29 per cent a year since privatisation - has gone hand in hand with an increase in employee share owners from 38 per cent of the workforce in 1982 to about 90 per cent today.

15. How then has the Government taken forward the policy of widening and depending ownership?

16. You will all be familiar with the steps we have taken on the tax front. Since the introduction of PEPs in 1987 we have refined and

improved the rules, so that they now provide a versatile investment mechanism capable of appealing to a wide variety of investors.

17. The Government has also taken action to encourage employee share ownership in eleven of the last thirteen budgets. For example in last year's budget a new tax relief was introduced for the costs incurred by companies in setting up approved employee share schemes.

18. Less familiar in some quarters is the way in which the privatisation programme has been one of continuing innovation in the way in which share sales are conducted. We have led the way in developing major retail offer structures and making them attractive to the general public - from the privatisation of BT in 1984 - then the biggest public offer in the world - to last years BT share sale with its novel distribution, pricing and tender arrangements which are already being imitated by the City.

19. We have given the smallest investors priority in allocation of shares instead of following the accepted practice of scaling back to the benefit of the largest applicants.

20. We have made investors' first steps in shareholding more affordable by instalment payments which also contributed to a higher return on investment.

21. We offered incentives to encourage people to hold onto their shares in the longer term, and - a revolutionary development at its inception - we have used advertising to attract the small investor.

22. I recall the consensus of professional opinion in 1984 was that the Government's novel public offer of BT shares would not take with the man or woman in the street. That has been proved entirely wrong and I hope that there are few here today who do not recognise the substantial value of the retail share market. People of all kinds have bought shares not only in BT but also in British Gas, British Airways, British Steel, the water companies and now the electricity industry both north and south of the border.

23. The BT Share Shops initiative also succeeded in putting millions of share applicants directly in touch with a broking service. Our research has shown that, while not universally welcomed, this initiative has promoted a much wider understanding of what share dealing and share investment services are about.

24. These initiatives have been tremendously successful. If any one had suggested back in 1979 that today there would be about ten million individual shareholder to day they would not have been believed. But there are.

25. Mass ownership is with us. And I think that this is the main point for the future. The Government's underlying aim has been to make investment through share ownership a commonplace among individuals from all walks of life. We were convinced that new owners would get the share habit given the opportunity to buy shares and to hold them for a reasonable period. But at the end of the day servicing a mass market means ready access to share dealing and investment services if shareholders are to continue to venture beyond privatisation

issues. And I am convinced that there are millions of investors who have been introduced to share ownership in the last decade who will - if the right services are offered to them - deepen their holdings.

26. And that opens up tremendous opportunities for you, brokers. Of course, many of you will decide to focus on what you do best: providing a high quality service to clients you have been serving for many years. The opportunities in the main market will be different. Many commentators have failed to appreciate its potential. The best available figures show that total private individual wealth held through shareholdings, unit trusts, debentures, building society and bank deposits now stands at £530 billion [the end of Q3 1991/92]. The retail market offers huge scope to those providing services to the retail investor.

27. The Government can only do so much to set the scene, and I have explained what we have done both through the privatisation programme and other measures. But others have a vital part to play. What then is needed?

28. First, arrangements for buying and selling shares were transformed by the development in the 1980s of new, no frills dealing services; principally by dealing through execution only postal and telephone services. It seems to me to that there is scope for developing these further, particularly in the light of the opportunities that will be provided by Taurus.

29. Secondly, and I think this is fundamental, providing the right sort of information and advice to the mass market. There is tremendous scope for providing advice to people who own one or two privatisation issues, and who want to put some spare cash directly into the stock market but are unsure about which company to go for next. But traditional models won't work in the sharply different context of the mass market. There are some great prizes for those who look at how - economically - to offer a high quality service to the small investor.

30. Thirdly, there is also an important role for companies. 2.6 million people have benefited from employee share ownership schemes - but there is clearly great potential for growth. Companies that have not introduced such schemes should ask themselves why not. And companies which already have schemes should ask themselves whether they match up to best practice. For example, is there more that could be done to communicate the benefits of their scheme to all their employees.

31. I am sure that action on all three fronts will make a tremendous contribution to widening and deepening share ownership.

32. You would expect me to say a few words about the planned transfer of responsibilities for financial services to the Treasury. Despite the changes the current division of responsibilities is the same as it was before the Election. Treasury Ministers have responsibilities for legislation on banks and building societies; DTI Ministers are responsible for the non-banking sector. We expect that the formal procedures necessary to effect the transfer of responsibility, which require a Transfer of Functions Order, will take place in the next few weeks.

33. It is our intention to transfer to the Treasury DTI's responsibilities for the regulatory arrangements for non-bank financial services, including EC and international markets and the DTI's interests in the UK and overseas financial markets. I hope that my presence here today will convince you all that we hope that the relationship between APCIMS and the Treasury in the future will be as good at that with DTI in the past.

34. This is an exciting time for the Treasury to assume these responsibilities. Britain has led the way - in Europe at least - in promoting a mass market for shares. We have established tax incentives to individual share ownership; we have given the smallest investors priority in the allocation of shares; we have enhanced investor protection and we have started the process of demystifying share ownership. But the process of change is still closer to the beginning than the end. Great opportunities exist for advisers to create the market; for companies to tap it and most of all for investors to exploit it.

35. But if the potential is to be fully realised, it is to Sid, not to Aunt Agatha that we should henceforth be addressing ourselves.