



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

21 May 1984

John Redwood Esq  
10 Downing Street  
LONDON  
SW1

*Dear John*

**ENCOURAGING EMPLOYEE AND WIDER SHARE OWNERSHIP**

I enclose notes, prepared by Inland Revenue and the Treasury, on relevant measures adopted since 1979. Included at Annex C to the first note is some material on Mr Shore's intervention in the House on 2 May regarding disposals of employee shareholdings.

Some of the individual measures in the tax field are quite complicated and are set out only in summary form below. No doubt you will let me know if more detail would be helpful.

*Yours ever*  
*David*

D L C PERETZ  
Principal Private Secretary.

PRIVATISATIONS: MEASURES TO ENCOURAGE EMPLOYEES  
AND SMALL INVESTORS TO BUY SHARES

I. EMPLOYEE SHARE OWNERSHIP

1. 1983 Manifesto

The Manifesto stated that in privatising BT, Rolls Royce, BA etc "we will offer shares to all who work in them."

2. Extent of special arrangements for employees

Special arrangements have been made to encourage employee participation in all privatisations where a majority shareholding has been sold by stockmarket flotation.

3. Typical pattern of arrangements

Arrangements for employees typically include

- |   |   |                            |
|---|---|----------------------------|
| (a) An offer of free shares   | ) |                            |
| (b) An offer of matching shares given   | ) | shares placed in trust for |
| free in proportion to shares  | ) | at least 2 years- see      |
| purchased by the employee   | ) | Annex C.                   |
| (c) A Special application form which gives the employee priority in the allocation of any shares that he may apply for in addition to the free and matching offers. |   |                            |

[CONFIDENTIAL - NOT FOR DISCLOSURE: Guidelines limiting the value of the elements of an offer were laid down in 1980 as £50 maximum free offer and overall cost of free and matching offers not to exceed an absolute maximum 5 per cent of Gross Proceeds. The Guidelines have been adhered to - allowing for a rise in the free offer broadly in line with inflation.]

4. Exceptions to the typical pattern

British Petroleum, where there was no free offer. The Cable and Wireless privatisation where matching shares were to be made available over a period as part of the companies employee profit sharing scheme. The British Telecom scheme, which will include a discount on shares applied for in addition to the free and matching offers.

The National Freight Corporation was an employee/management buyout.

5. Arrangements during subsequent sale of any residual Government shareholding

No free or matching shares have been provided by the Government but special application forms have been distributed giving priority to employees in allocation.

6. Details of arrangements in individual cases

A table is attached at annex A giving brief details of each relevant privatisation.

7. Bull points on success of arrangements for employees

Around 90 per cent of eligible employees have participated in the schemes to date with about 100,000 becoming shareholders in their own companies.

8. Mr Shore's charge that employee shareholdings are quickly sold

Attached at Annex C is a note, with a line to take, on erroneous remarks by Mr Shore on the occasion of the Secretary of State's 2 May statement on BT privatisation.

## II OTHER SMALL INVESTORS IN PRIVATISATIONS

9. The Financial Secretary replied to a question from Mr Tony Banks (Hansard 23 February 1984 W.A Col 590) in these terms:

"It is our policy to encourage participation by private individuals in individual share sales wherever this is appropriate".

10 Arrangements for small investors

Arrangements to encourage applications by small investors have included:

- (a) Wide advertisement of sale and broad distribution of prospectus.
- (b) Preferential treatment in allocation.
- (c) Opportunity to apply at the striking price in tender offers (thus helping inexperienced investors by removing the need for them to judge a price to bid).

(d) In one case (Britoil) free shares given in proportion to those held for three years after the sale.

[CONFIDENTIAL - NOT FOR DISCLOSURE: items (b) and (c) are essentially costless but item (d) represents a discount, delayed in time, on the price of shares. This discount may be offset by increased demand, but because of uncertainty over possible net cost there is no firm commitment to use this technique in the generality of sales.]

11. Details of arrangements in individual cases

A table is attached at annex B giving brief details of each relevant privatisation.

PE2

H M Treasury

May 1984

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

## 1. Summary of Key Figures

Company (Date of Sale)	Maximum Value <sup>*</sup> of Incentives Per Employee	Percentage <sup>+</sup> of workforce participating	Percentage <sup>+</sup> of Issued Share Capital Held
	£	£	£
BP (October 1979)	500	43	0.25
British Aerospace (February 1981)	499	74	3.6
Cable and Wireless (October 1981)	300	99	1.4
Amersham International (February 1982)	550	99	3.7
National Freight Company (February 1982)	£200 interest free loan for share purchase	23 <sup>♯</sup>	82.5
Britoil (November 1982)	458	72	0.1
Associated British Ports (February 1983)	311	91	4.3
British Telecom (announced arrangements)	470	N/A	N/A

Notes:

\* Maximum value of shares available free to an employee under both free and matching offers plus value of any other financial incentive.

<sup>+</sup> Initially following sale.

<sup>♯</sup> Percentage of employees and pensioners involved.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

2. Outline of Schemes\*

Company (Date of Sale)	Free <sup>+</sup> Offer	Matching <sup>♢</sup> Offer (Free: bought)	Other Financial Incentives
BP (October 1979)	None	Max £500 (1:1)	None
British Aerospace (February 1981)	£49.50	Max £450 (1:1)	None
Cable and Wireless (October 1981)	£50.00	£250 <sup>+</sup> (1:1)	None
Amersham International (February 1982)	£50.00	Max £500 (1:1)	None
National Freight Company (February 1982)	(Management/Employee Buyout)		£200 interest free loans
Britoil (November 1982)	£58.50	Max £400 (1:1)	None
Associated British Ports (February 1983)	£59.33	Max £252 (1:1)	None
British Telecom (announced arrangements)	£70.00	Max £200 (2:1)	10 per cent discount on up to £2000 of further shares

Notes:

- \* All schemes include preferential application forms for further shares which give employees priority in allocation.
- + Value of shares at time of privatisation which HMG was to make available over the life of the Company's profit sharing scheme.
- + At offer price.
- ♢ By HMG or company Trust.

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

## 3. Take up of Offers (per cent eligible employees)

Company (Date of Sale)	Free Offer	Matching Offer	Preferential Application Forms
BP (October 1979)	N/A	50	43
British Aerospace* (February 1981)	89	41	1.6
Cable and Wireless* (October 1981)	99	99	25
Amersham International* (February 1982)	99	80	40
National Freight Company (February 1982)	(23 per cent of employees and pensioners participated in the Management Employee Buyout) <sup>+</sup>		
Britoil (November 1982)	92	62	not available
Associated British Ports (February 1983)	90	38	2.9
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

\* Average employee holding estimated as: BAe £161, Cable and Wireless £585, Amersham International £1,680.

+ Directors, Employees, Employees, Immediate families, Pensioners formerly employed by the company, their wives and or widows/widowers were all eligible.

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

## 4. Number and Value of Shares Involved

Company (Date of Sale)	Number of Shares Applied For	Number of Shares Allocated	Per cent Share* Capital Held
BP (October 1979)	Not available	Not available	0.25
British Aerospace (February 1981)	10,612,008	7,072,300	3.6
Cable and Wireless (October 1981)	3,785,833	3,785,833	1.4
Amersham International (February 1982)	2,014,140	1,828,290	3.7
National Freight Company (February 1982)	6,187,500	6,187,500	82.5
Britoil (November 1982)	580,610	580,610	0.1
Associated British Ports (February 1983)	1,856,875	1,736,965	4.3
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

\* Issued share capital held by employees immediately following sale.



## ARRANGEMENTS FOR SMALL INVESTORS IN PRIVATISATIONS

Company (Date of Issue)	Distribution* of Prospectus	Preference in Allocation	Any other measures
BP (October 1979)	Post Offices, Shareholders Clearing Banks, Co-op Bank, TSB's	Yes	-
British Aerospace (February 1981)	Main branches Lloyds, Clydesdale Bank, Bank of Ireland	Yes	-
Cable and Wireless (October 1981)	Main branches Natwest, Ulster Bank, Hong Kong	Yes	-
Amersham International (February 1982)	Regional Stock Exchanges	Yes	-
Britoil (November 1982)	Post Offices, Clearing Banks, TSB's	Offer by Tender	Striking price applications 1 for 10 small shareholder bonus (after 3 years)
Associated British Ports (February 1983)	Lloyds branches, Bank of Ireland	No	-
BP (September 1983) <sup>+</sup>	Main branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applications
Cable and Wireless (December 1983) <sup>+</sup>	Main branches of several UK Banks Main Post Offices	Offer by Tender	Striking price Application
Associated British Ports (April 1984) <sup>+</sup>	All branches of Lloyds Bank, Bank of Ireland	Offer by Tender	Striking price Applications

Notes:

\* Other than to Bank of England, Merchant Banks, Underwriters, Brokers and Receiving Banks.

+ Sales of residual holdings.

MR SHORE'S STATEMENT (OR 2 MAY COL 354) THAT EMPLOYEES SELL SHARES QUICKLY

"... Previous attempts to make privatisation popular by dispersing shares to existing employees have resulted in about 84 per cent of all such allocations being disposed of by the recipients within one week of becoming the owners".

1. Background

[CONFIDENTIAL: NOT FOR DISCLOSURE: Free and matching shares allocated to employees in privatisations are placed in trust for a minimum of two years and may not be sold or pledged as security during that period except in case of injury, disability, redundancy or retirement. Beyond this there is a further period up to seven years from allocation when the shares may be traded at the cost of losing some or all of their tax exemption. Although we do not have figures, since a large proportion are in trust, it is highly unlikely that Mr Shore's statement is true. He is almost certainly confusing employee shareholders with the generality of small investors. There is some evidence of falls of this magnitude in the holdings of other small investors. (For example, in the case of British Aerospace, excluding employees, shareholders holding less than 1000 shares fell by 84 per cent in just under one year. This is probably the source of Mr Shore's figure. There was a similar fall in the case of the 1981 Cable and Wireless sale). How much of this is due to professional stock market speculators ('staggering' the offer) and how much to ordinary investors taking profits or otherwise adjusting their portfolios after allocation we cannot tell. The loyalty bonus in the case of Britoil was designed to combat the professional speculator. Initial evidence shows small shareholdings holding up well - but then Britoil was heavily under-subscribed with a poor aftermarket. In general, widespread selling immediately after an offer is only likely to be a problem in fixed price offers which prove to be underpriced.]

Suggested line to take

(a) 84 per cent Fall in Employee Shareholdings?

"It is the Government's intention to encourage long term participation by employees in their company and indeed free shares are usually held in trust for their owners for a minimum period. I am therefore surprised that the hon gentleman should feel able to state that 84 per cent of the employees holding are sold within a week. I should like to see his evidence."

(b) 84 per cent Fall in Small Investors Holdings?

"The fact that large numbers of small investors have been involved in privatisations to date is a tribute to the Government's policy of encouraging their applications. It is not unusual for there to be a high turnover in shares in the period immediately following a flotation but I have seen no evidence to suggest that recent privatisations have particularly suffered from this."