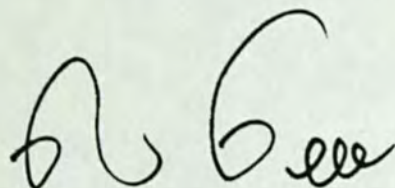


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The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London  
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19 June 1985



## AEA BILL COVERAGE

Thank you for your letter of 10 June in response to mine of 9 May.

I am glad that you recognise the Parliamentary problems of inserting clauses into the Bill to facilitate partial privatisation in the medium term. For my part I can certainly agree that the new Chairman's objectives should include a requirement to manage the Authority's affairs so as to create scope for joint ventures or flotation wherever possible.

However, it seems to me that similar Parliamentary problems arise with your new proposal that we should provide for commencing equity on which dividends would be payable, and for powers to convert reserves into additional equity later. Our intention is that the AEA Bill should be ready for introduction at the beginning of the next Parliamentary session and should be well into Committee before, say, the Gas Privatisation Bill appears on the scene in December, with Royal Assent before the Trading Fund comes into operation on 1 April 1986. Thus the Parliamentary window is quite narrow and I fear that your proposal would have the effect of closing it.

While I can see that a mixed equity/debt regime has some attractions as being closer to the private sector model, I do not think that the case is particularly strong in the case of the Authority, and the analogy with the ESI is certainly false. I would expect the Authority to have to fight hard to retain its customers under a Trading Fund regime, and I would not expect it to earn large profits on its work for my Department or anyone else. Furthermore it is possible that depreciation provisions will not fully cover capital requirements over the next few years. Thus, far from becoming debt free, the Authority's debt and interest burden may actually increase.



You mention the analogy with the dividend payments from the existing Government Trading Funds. However my understanding is that the public dividend capital was only created in two out of the four cases, those being the very profitable Royal Ordnance Factories (shortly to be privatised) and the Royal Mint, where the possibility of the organisations becoming debt free could clearly be foreseen.

Furthermore, if we were to go down this path I should certainly want a number of safeguards for the Authority Board in relation to agreeing dividend payments or the conversion of reserves into additional equity. We should also need to consider what degree of Parliamentary control we could accept and what risk there would be that Parliament would insist upon more. These were, of course, key issues in relation to the proposed Nationalised Industries Bill, and I can imagine that the process of thrashing out what would be appropriate for the AEA would be neither easy nor quick.

You suggest that only small or possibly no additions to the Bill would be required, given my existing wide powers over the Authority's revenues and accounts. However I understand that doubts have been expressed about whether a change of this scale could properly be achieved without substantial provisions on the face of the Bill. It would then be clear for all to see that we were trail-blazing for the NI Bill in areas where we have yet to decide in E(NI) that it is in fact sensible to proceed, and the AEA Bill would inevitably become highly controversial.

In the light of the above I hope you can agree not to pursue these ideas. What I can offer is that if, in the remote future, the Authority were to become either extremely profitable or debt-free I am advised that I could use my powers under section 4(2) of the 1954 Atomic Energy Authority Act to claw back moneys from the Authority in lieu of a dividend if we wished to do so. These powers are, incidentally, very similar to those in section 4(4) of the Government Trading Funds Act 1973 which have recently been used in relation to the Crown Suppliers. They would therefore seem perfectly appropriate to the purpose.

I am copying this letter to the Prime Minister, the Lord President, members of E(NI) and Sir Robert Armstrong.

PETER WALKER

Smiley : AEA

3/84

