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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 January 1990

Dear Sec,

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (ED) DEPARTMENT

The Prime Minister has seen your Secretary of State's letter of 18 January to the Secretary of State for Trade and Industry. She is content with the approach he proposes.

I am sending copies of this letter to the Private Secretaries to the members of Misc 128 and to Sir Robin Butler.

*Yours,
Pd*

PAUL GRAY

Ms. Sara Dent,
Home Office.

QTS



QUEEN ANNE'S GATE LONDON SW1H 9AT

18 January 1990

Nicholas Ridley

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (ED) DEPARTMENT

from P18

MISC 128 colleagues agreed in correspondence last summer that the ITC should have powers to commission R and D work relevant to its statutory functions, but that it should not have an in-house R and D organisation like the IBA's Experimental and Development (ED) Department. It was also agreed that we should try, if possible, to move ED Department into the private sector; and that, if this did not prove to be possible, it would be wound up. My Department has now received advice from Price Waterhouse on the feasibility of various options for privatisation.

They identified three main privatisation options: the establishment of ED as a free-standing company; selling it to another company; or privatising it along with the transmission company. The first option is clearly not a runner. Even on favourable assumptions about likely revenue, the projections show that a separate ED company, carrying its own overheads, would not be profitable. Even with dramatic restructuring the future of ED as a separate company would be precarious. We understand that contract R and D houses tend to operate as non-profit making trusts rather than commercial companies. As to the second option, the main assets which would be attractive to another company are the IBA's engineers (some of whom are highly marketable); but it would clearly not be necessary for a company to buy ED Department in order to acquire their services.

That leaves a choice between privatising ED Department in some form as part of the transmission company, or winding it up. In practice the transmission company will need a technical development unit of some sort to provide direct

/technical support

The Rt Hon' Nicholas Ridley, MP
Secretary of State
Department of Trade and Industry



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technical support for the transmission system. This is one of ED Department's functions at present. Activity of this sort could be legitimately funded from the company's transmission charges. It seems clear, therefore, that this part of ED Department at least will need to be privatised along with the transmission company. This is the minimum future for ED Department. The question arises as to whether any other parts of the Department could also be sold as part of the transmission company. Price Waterhouse have identified several other areas where ED could generate income. For instance, it could compete for R and D contracts awarded by the ITC; and also tender for any development work needed by broadcasters. It is clear, however, that these potential revenue streams would not support the present cost structure of ED Department. If it is to continue in anything beyond the minimum form it will need a significant restructuring.

Given the high international standing of ED Department I believe that we should give the IBA the opportunity to make a case that it should continue in something beyond the minimum form. At the same time I do not think that we should let this objective depress the overall proceeds of the sale. This implies that the successor to ED Department should be capable of at least covering its costs. Accordingly, I propose to invite the IBA to prepare by the end of March, a business plan for a slimmer unit, indicating clearly its costs and its likely revenue streams. If this plan indicated that it would cover its costs, and if it appeared to be based on robust assumptions, I would agree to the inclusion of the proposed unit in the transmission company. I should be grateful for your agreement, and that of colleagues, to this way forward. It is important that we give the IBA a clear steer on this as quickly as possible. I should therefore be grateful for a reply by 25 January.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

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