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Secretary of State for Trade and Industry

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9 July 1990

*David Bain*

*mtb BP*

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (E&D) DEPARTMENT

Thank you for your letter of <sup>Pres PTH</sup> 22 June enclosing a copy of the plan for the IBA's E&D Department prepared by the future management of the private transmission company which is to inherit the IBA's transmission operation at the beginning of next year. In agreeing earlier this year that we should give the IBA the opportunity to make a case for retaining more than a minimal technical development unit, I emphasised the importance of such a case being a robust one. I am doubtful of the extent to which this has been achieved.

In assessing the plan, much depends on the expectation of future income. I found it less than convincing on this, for three reasons. First, we do not have any firm assurance over the future of the contracts which the ITC may wish to place with the E&D Department. Much of their projected future income will depend on this. In the first 2 years it is more than one half, declining to about one third after 5 years. As the plan explains, no commitment can be made at this stage on behalf of the ITC. Thus the IBA has been able to do no more than agree that the ITC should endorse the assumptions in the plan and place high priority on confirming the proposed levels of expenditure. Moreover, your letter notes that some trimming of ITC budgets may be necessary if you are not entirely successful in your bid in



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this year's PES for a £2 million loan for the ITC. In view of my further points below, any change in the expected position of the ITC contracts would need to be looked at carefully.

Secondly it appears from the plan that the next major element of income, from contracts with British Satellite Broadcasting, is also not secure. My understanding is that the only firm commitment is for expenditure up until 31 March 1991 which will be at about the time of privatisation of the transmission network. I am also unclear as to why the plan assumes that BSB income will continue at a constant level of funding thereafter when the E&D Department will be in a competitive market, a point that is taken into account in the declining level of receipts from ITC contracts.

Thirdly it appears that none of the "other" sources of income proposed in the plan is based on a firm contract either. The extent to which the E&D Department can secure such external contracts will depend to a large degree on the ability of the management. As the plan points out, however, the Department presently lacks experience in managing the demands of the commercial market place. Finally I see that the income from these sources shows an encouraging doubling between 1992 and 1993 but unfortunately this does not seem to be supported by anything in the text.

As you may appreciate, these points make me doubt the overall robustness of the case presented, particularly since they are from just one, albeit critical, area of the plan. Against this we have to judge the likelihood that including the E&D Department in the privatisation would depress the proceeds from the sale of the transmission network. Here I note that your financial advisers, Price Waterhouse, believe that it would be unlikely to depress, and might well enhance, the proceeds. I should find it helpful to know whether, in reaching this judgement, they took full account of the points I have raised. I should also be interested in any other concerns they may have expressed over the projections in the plan as to E&D's viability.

Subject to a clear assurance on these points, I would be prepared in principle to proceed in the way you propose but I feel we should press the company further on the need to secure future contracts in advance of privatisation. In particular, I think it should be a condition that, by the end of this year, they have in place a firm commitment from BSB for funding in 1991/92 at the level envisaged and that they should also have secured contracts for a significant part of the projected "other" income in the first two years of the plan. I hope you would also agree that,



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given the importance of the ITC contracts, we would need to look again at the proposal should the ITC decide in due course that they are not prepared to place the contracts currently envisaged for 1991 and 1992.

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

A handwritten signature in black ink, appearing to read 'J. ...'.

A second handwritten signature in black ink, appearing to read 'A. ...'.

BROADCASTING : POLYMER P172

