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27 June 1989

Dear David,

INDEPENDENT BROADCASTING ENGINEERING AND R & D

WITH LG? / WITH REQUEST FOR EQUIPMENT

Thank you for your letter of 16 June enclosing a paper about the future of the IBA's engineering and R & D.

In general I agree with your conclusions. The only area where I would like to suggest a slightly different approach is the privatisation of the IBA's Experimental and Development (ED) Department. I agree that the future of ED Department should depend on whether it can pay its way by selling its services in the market. If it cannot do so then there will be no case for finding it a continuing home in the public sector. But I think that we need to consider carefully how we manage the process of privatisation. ED Department will have to make a considerable cultural change, from a public sector body operating at some distance from the market to a private company operating in a very competitive environment. It will be undergoing this change at a period of considerable flux in broadcasting. As the paper by officials notes, in the early 1990s broadcasters may be too preoccupied with short term problems arising from the 1993 franchise round to make longer term decisions about R & D. I therefore fear that a privatisation in early 1991 - which is what your proposal would mean in practice - might well fail. This would not be a happy outcome. We would suffer the embarrassment of a failed privatisation; and the resource represented by ED Department would be broken up, probably irrevocably.

So I think we need to find a way of providing ED Department with stability in the short term, to give its management time to make the adjustments necessary to enable it to survive in the private sector. Our privatisation policy has always recognised that some public sector organisations need time to reorganise themselves before they can be successfully moved into the private sector. Specifically, I propose that ED Department should be set up in the Bill as a separate company required to operate on a commercial basis. In the very short term it would be a subsidy of the ITC. However, the ITC would be empowered to require those of its licensees using UK frequencies (i.e. Channels 3 and 5 licensees, and local delivery operators) to invest in the company for a limited period (until, say, the end of 1994). At the end of this period the ITC licensees could withdraw from the company if they wished. Most of these licensees would not come into force until January 1993. In the period before January 1993 the ITC could be asked to encourage the ITV companies, BSB and cable operators to make modest investments in the company if they wished. It could also seek investment from outside the broadcasting industry, e.g. from equipment manufacturers. I understand that the annual budget of ED Department is

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presently £2.5 million, so the financial exposure of any individual licensee required to invest in it would be minimal even if it were a complete commercial failure.

The basic model I am putting forward - required investment by ITC licensees - is similar to the one which successfully launched ITN, and which we are envisaging for the Channel 3 news organisation in future. The main difference is that the licensees would be required to invest for only a limited period. I see it as having three main advantages. First, it would give the management of the new company a short period in which to adjust to the private sector environment. During this period it would have to compete for R & D contracts. There would be no guaranteed sources of work from the ITC. Second, it would give a clear target date - the end of 1994 - by which time the company would have to be ready to stand on its own feet. Third, the involvement of broadcasters and others in the industry would reinforce the pressure on the company to focus on the needs of its potential customers.

I take your point that there is a danger that transitional arrangements can run for longer than originally intended. I believe, however, that we can guard against this possibility by specifying in primary legislation the latest date until which ITC licensees would be required to invest in the company. In this way it would not be possible for the ITC to extend the period of required investment in the company, even if it were tempted to do so. The company might, of course, go under at the end of 1994. That would be a pity; but it would at least have been given a reasonable chance to establish itself.

I think that transitional arrangements on these lines would be fully justified on the merits. But we also need to keep in mind the politics of this issue. ED Department has a high reputation internationally, and has admirers in this country, including among some of the more knowledgeable of our own supporters. While the IBA would, I believe, support privatisation, they are likely to oppose any scheme which did not include transitional arrangements; and they would not be short of Parliamentary support. I am not keen on this issue becoming a running sore throughout the passage of the Bill.

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

Yours,  
Dunlop