

PRIME MINISTER

14 July 1989

IBA AND ITC: ENGINEERING & R&D

At present the IBA employ around 500 people in their engineering division, the majority of whom run the transmission system. Around 80 are responsible for applied R&D, which supports the transmission system (the Experiment & Development Department, E&D) and some resources are also devoted to network and frequency planning.

The government has taken the decision to privatise the IBA's transmission system, which implies that the ITC will not require its present engineering division.

There is still, however, the question of what happens to the present E&D Department.

The Home Office, DTI, Treasury and Chief Scientist all agree that ultimately the E&D Department should be either privatised or wound up. All are also agreed that the ITC will not need more than 10 or so permanent engineering staff, but that the ITC will need the power to commission research directly relevant to the ITC's statutory duties.

In terms of the immediate way forward, however, there is a difference of opinion.

- (a) The Home Office and Chief Scientist believe that it would be better to set up the E&D Department as a separate company, compulsorily financed by the franchise holders of C3 & C5 until say 1995 because:

- the E&D Department is not yet ready for privatisation;
- the privatisation might fail;
- the company might be worth more after the review of the telecommunication duopoly.

(b) The DTI and the Treasury take a rather more robust line, arguing that it should be moved into the private sector at the same time as the transmission system is privatised and the IBA ceases to exist.

The Treasury, however, are keen not to make a public announcement that the E&D Department will definitely be privatised, in case this should prove too difficult and it therefore had to be wound up.

Conclusions

A number of conclusions can be drawn:

- (a) The Home Office approach would produce a larger ITC bureaucracy: it must be doubtful if the E&D Department would be privatised at all in the foreseeable future;
- (b) from the public interest point of view, it is important that the ITC is able to commission relevant research in R&D, not that it is carried out within the ITC;
- (c) David Young's most recent suggestion is that he should make a statement which does not refer to the aim of privatising E&D, but make it clear that it should be more market-oriented and confirming at the same time that the ITC will not have its in-house facility.

CONFIDENTIAL

Recommendation

The Home Office approach is too timid - and for no very good reasons.

It would be far better to make it absolutely clear to the staff of the E&D Department that following the privatisation of the transmission facilities of the IBA, the government expects R&D to be carried out within the private sector (even though some might be commissioned from the ITC) and that there will be no continuing subsidies from C3 or C5 companies for the existing E&D Department.

As a consequence, it invites and will consider any proposals from staff or companies which facilitates this process.

Brian Griffiths

BRIAN GRIFFITHS

CONFIDENTIAL