

fst.01.07.9.89



Handwritten: N.B. again at this stage - wait for an Ltr from Office letter.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd MP
Secretary of State for
the Home Department
Home Office
50 Queen Anne's Gate
London SW1

Handwritten: REC 11/9

7 September 1989

Handwritten: Dear Douglas

PRIVATISATION OF THE IBA TELEVISION TRANSMISSION

I have seen your letter of ²⁷ July to Nicholas Ridley and the Prime Minister's comments of ³¹ July.

I was initially concerned by your view that an early sale might depress the proceeds, but, on reflection, I think the danger of the Exchequer suffering from an early sale is overstated. Your letter mentioned two reasons why this might occur. First, a private sector company would pay less if it had to bear the costs of removing over-staffing. But since the total charges for administration and transmission that can be passed on to the ITV companies are already set down in ITV contracts, and we are not able to insist that the IBA finances a substantial redundancy programme from those resources, it seems probable that any significant redundancy costs incurred before privatisation might, in any event, have to be paid by the Exchequer.

However, even if the IBA/ITV companies were to meet the estimated redundancy costs of £5m between 1991 and 1993, the effect of postponing the sale would - other things being equal - be to increase the estimated proceeds from around £100 million to £105 million, at constant prices. This being so, applying the usual 6 per cent discount rate would indicate that we would still be better off selling in 1991.

Second, there is the argument that proceeds might be higher if the sale were deferred until the results of the telecommunications duopoly review are available. On the other hand, there must be a small risk that if, following the review, the transmission assets could not be used for telecommunications purposes, the proceeds from a later sale could be lower. Although this is perhaps unlikely there is no strong reason why the Exchequer, rather than the private sector, should take this risk.

There are, as you say, other reasons to favour an early sale. It would allow the new owner rather than the IBA to decide how the substantial sums budgeted for replacement of transmission equipment should be spent. It would remove the need to run, for

more than a few weeks, a new public sector company to transmit commercial television after the IBA is abolished. And it would also provide one of the first tangible signs that the new regime for broadcasting was actually being put in place, after many months of discussion and consultation.

Consequently I share your view that we should aim to privatise the IBA's transmission system as soon as practical but I agree that we do not need to commit ourselves publicly to any date at this stage.

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

Yours ever



PETER LILLEY



BROADCASTING : BBC Finance PT9

