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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

25 September 1989

*Dear Catherine,*

**PRIVATISATION OF THE TRANSMISSION SYSTEM**

Thank you for your letter of 19 September which the Prime Minister has seen, together with the earlier letter of 7 September from the Financial Secretary to the Home Secretary. In the light of these further comments, the Prime Minister is content for the Home Secretary to proceed on the basis proposed.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robin Butler.

*Paul Gray*

PAUL GRAY

Miss Catherine Bannister  
Home Office

*do*

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HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

19 September 1989

Dear Paul

PRIVATISATION OF THE TRANSMISSION SYSTEM

*at flap*  
In your letter of 31 July you said that the Prime Minister was reluctant to aim for privatisation of the IBA's transmission system as early as possible in 1991, bearing in mind the points made in the Home Secretary's letter of 27 July about the possible effect of early privatisation on the proceeds of the sale. The Prime Minister will now have seen the Financial Secretary's letter of 7 September in which he argues that the possible effect on the proceeds was overstated in the Home Secretary's letter.

The Home Secretary remains of the view that it would be best to aim for early privatisation; though he thinks it would be prudent not to give a firm public commitment to a specific date at this stage. I should be grateful if you could let me know whether, in the light of the Financial Secretary's letter, the Prime Minister would be content with this course.

If privatisation is to take place in 1991 officials here will need to move quickly to arrange the appointment of advisers. It would be helpful if, before they were appointed, Ministers could have reached agreement on some basic points about the methods of the sale; and its relationship with the possible sale if the IBA's Experimental and Development Department (ED).

As regards the method of the sale, the Home Secretary thinks that it is clear that a public floatation should be ruled out. The IBA's transmission system is not operated as a company, and it has no proper trading record. A public floatation would therefore not be possible until five years after the passage of the broadcasting legislation. That leaves a private sale, whether a Management Buy Out (MBO) or to a trade buyer. Some engineers from the IBA's Engineering Department are known to be preparing an MBO proposal. The Chairman of the IBA has indicated that he thinks a trade sale would be preferable to an MBO, on the basis that the individuals concerned do not have any business experience. While this is clearly a consideration, the Home Secretary thinks that the assessment of their commercial competence should be left to the market. If they do not put together a credible proposition they will not attract lenders. The Home Secretary therefore thinks that, while an MBO proposal should not be given an inside track, it should be made clear that a management team would be welcome to bid. The terms of reference for the financial advisers might therefore indicate that the privatisation is to take the form of a private sale, in which the MBO proposal (if it comes to fruition) would have to compete with any would-be trade buyers.

Ministers have decided that broadcasting R & D should be carried out in the private sector in future, and that ED Department should be privatised if feasible. No work has yet been done, however, to establish whether a buyer could be found for it; and this is clearly an area where we will need financial advice. Much of the R & D work done by ED Department is related in some way to the operation of the terrestrial transmission system. It is therefore conceivable that the feasibility of privatising it may be influenced by whether it is sold separately, or along with the transmission system. The Home Secretary therefore suggests that our advisers should be invited to look explicitly at both these possibilities, and also to assess the likely effects on the overall proceeds of a joint sale as opposed to a separate sale.

If privatisation is to take place in early 1991 advisers will need to be appointed very soon. I should therefore be grateful for a response by close of play on 25 September, if possible.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robin Butler.

*Yours*

*Catherine*

MISS C J BANNISTER

Paul Gray, Esq.,  
No 10 Downing Street  
LONDON, S.W.1.

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