

c BT
MAP

Yes no

Prime Minister

(1)



Content, subject to colleagues' agreement, with these arrangements?

18 February 1982

Prime Minister

PRIVATISATION OF THE HYDRAULICS RESEARCH STATION

MUS 18/2

Early in 1981 I undertook, after consultation with colleagues, to seek to privatise the Hydraulics Research Station. I am now well on the way to completing this exercise and it is my intention that the organisation will be trading as a company limited by guarantee from 1 April 1982. I thought it might be helpful to colleagues for me to set down the basis on which the privatisation will now proceed.

After a preliminary investigation by officials, I set up a Shadow Board to act on behalf of the prospective company and to advise on details. I announced this to the House in my written answer of 17 July 1981. The Shadow Board has now confirmed that, subject to certain financial conditions, the research station can be viable within the private sector. The Board has also drafted the appropriate Memorandum and Articles of Association for the company, produced a business plan, and identified suitable guarantors.

It is clear that the organisation will be viable only if it is launched free from financial encumbrances. I have therefore agreed with Treasury colleagues that the existing site and assets should be transferred free of charge to the new company, and that working capital of up to £1m should be provided. These arrangements do not represent a new call on public resources: the assets will continue to be used to provide a necessary service to government and the private sector, and the working capital is already tied up in the business. Furthermore, as the company is unlikely to be profitable in the early years, I will be providing some £3.6m to finance the purchase of certain major capital items which would be required whether or not the Station were privatised. My Department will continue to support research under contract at the Station, but I have no intention of supporting the new organisation with any form of subsidy or grants in aid. The only issue outstanding is the need to provide for the contingent redundancy liability should the company have to be wound up during its early years. I am in touch with the Financial Secretary on this point.

In order to help ensure a smooth transfer I am proposing to offer all 260 staff secondment to the new company for up to 2 years. This will give ample time to negotiate new terms and conditions of service for the employees and the Business Plan suggests that the company will have a sufficient revenue to offer permanent jobs to about 80% of the staff.

The Shadow Board have agreed that the company should offer jobs on terms and conditions of service which, taken as a whole, are no less favourable than those in the Civil Service. This is a necessary condition if we are to avoid the high cost of making redundancy payments, for if the staff were offered less favourable terms they could claim redundancy compensation. We could then face the embarrassing prospect of having ex Civil Servants doing the same jobs at the same location each having collected a lump sum from the Exchequer to compensate for loss of Civil Service status.

The concept of a company limited by guarantee is an ideal vehicle for a transfer like this, where it would be inappropriate to attempt to create equity shareholdings. In this case the members of the company will be the professional bodies, commercial associations, and institutions involved in the field of civil engineering and hydraulics. The organisation will continue to carry out a substantial volume of work for the government and I consider it appropriate therefore for one or two government Departments to join the company as members. I intend also to nominate a member of the Board to the company. I do not think it necessary or desirable for the Government to sever itself completely from the organisation provided, of course, that control is transferred into private hands.

The present timetable does not allow private guarantors to be secured by 1 April, though they can probably be found by say, 1 August. In order to get the company trading as soon as possible, therefore, I am arranging for it to be registered in the name of the Secretaries of State for the Environment and for Foreign and Commonwealth Affairs (the latter in recognition of the ODA's close association with HRS). Non-governmental members will, of course, be brought in as soon as possible and the Government's special position as founder member will cease at the time of the first Annual General Meeting, which I expect to be held in the early summer. However, we need to recognise that the company will not be fully private until the end of this transitional period, and during that short time it will appear on my Department's list of non-departmental public bodies.

In summary I intend that the organisation should trade as a company from 1 April 1982; control will be passed to non-governmental guarantors in the summer; and the assets and staff will be wholly transferred within two years. After that transfer HRS will become a private organisation and its relationship with government will thereafter be that of any research contractor.

I think it would be desirable for me to inform the House as quickly as possible of the steps which I am now taking to implement the privatisation and I would be grateful if colleagues would agree for this purpose to the terms of the attached Written PQ and Answer. I recognise that one point in the Answer - agreement to guarantee for a period redundancy payments to the levels to which the staff are at present entitled in the event of the company's failure - is dependent upon Treasury agreement on which, as I say above, I am in touch with the Financial Secretary. The point is an important one for the Shadow Board and the staff and without such a guarantee I doubt if I will be able to proceed.

I am copying this letter to the members of E Committee, the Lord President, the Chief Whip, and Sir Robert Armstrong.

DA S

AN MH

(Minute approved by
the Secretary of State and
signed in his absence)

DRAFT PQ

To ask the Secretary of State for the Environment if he has yet received the report of the Shadow Board set up to advise on the privatisation of the Hydraulics Research Station.

ANSWER

The Shadow Board presented their first report in late January and I am most grateful to the Chairman, Sir Alan Harris, and his colleagues for what they have been able to do. Their report has confirmed that subject to certain financial conditions being met the HRS would be viable as a company limited by guarantee in the private sector. These conditions relate to the free transfer of assets; assistance for the provision of capital equipment and working capital so that the company can start in the private sector without any residual finance encumbrance; and a guarantee to cover the contingent liability to redundancy payments in the very unlikely event that the company has to cease trading after only a few years.

I am glad to say that the Government is able to meet all these conditions and I have therefore asked the Shadow Board to proceed with arrangements to incorporate the company as from 1 April 1982. My expectation is that within a few months it will be possible to secure appropriate professional institutions as guarantors of the company. But in order to arrange that it can

start trading without delay it is being registered as an interim arrangement in the names of the Secretaries of State for the Environment and for Foreign and Commonwealth Affairs. It will thus temporarily be a non-Departmental public body.

The Shadow Board are also negotiating with the staff the terms and conditions of service that the company be recommended to offer. In order to allow proper time for this to be concluded satisfactorily all existing members of the HRS staff who wish to go will be seconded to the company. The Shadow Board have recommended that the company should make offers on terms and conditions which when taken as a whole are no less favourable than those in the Civil Service.

I am convinced that a newly constituted HRS in the private sector will continue to enjoy its high reputation as an international centre of excellence for civil engineering and hydraulics and that it will prosper free from the constraints of a Government Department.



18 FEB 1982