

CONFIDENTIAL FILING

TELEPHONE RENTAL AND STANDING CHARGE

POST AND

TELECOMMUNICATIONS

MARPH 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
22.3.82							
8.4.82							
28.4.82							
2.5.82							
2.7.82							
13.1.83							
12.5.83							

PREM 19/1346



Secretary of State for Industry

JF3486

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DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

12 May 1983

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister

No BT tariff

increase before

Polling Day.

MUS 12/5

Dear Geoffrey,

BT TARIFFS

Sir George Jefferson wrote to me on 6 May to propose certain changes to BT tariffs, to be announced and communicated to POUNC in late May with a view to implementation on 1 September. He explained that this would be the first increase in BT tariffs since November 1981 and that the proposed changes amounted to about 3% on average (with just over 2% on business bills and just over 4% on residential bills). The main features were an increase of £1 to £14.50 for residential rentals, an increase in the unit charge from 4.3p to 4.5p, some increase in the time allowed for each unit on trunk and international calls, an increase in the coverage of BT's low user rental rebate scheme (so that 3 million instead of 2 million will benefit), no change in the basic public call box charge and no charges for Directory Enquiries.

2 Kenneth Baker, John Butcher, John Wakeham and I met the BT Board on the morning of Monday, 9 May to discuss their Corporate Plan, and had an opportunity to discuss the BT tariff proposals in general terms. We told the Board that with the election imminent we would not be able to find the time to look at the BT proposals, both as to composition and timing, with the care and attention they deserve. Following our meeting Sir George Jefferson has written to say that in the light of our views he would be prepared to delay the submission of the tariff proposals to POUNC, and the consequential publication of them, until the middle of June.

3 I should add that Sir George Jefferson has pointed out in his latest letter that deferment of the implementation of the proposals by one month would make it more difficult for BT to



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meet their EFL for the current year of -£108m and to meet their financial target of 6.5%. I propose to tell him that we would like him to let the incoming Secretary of State for Industry have his proposals immediately on appointment, and that we would expect BT to strive to find the internal resources to make up for any deferment in implementation of the tariff package from further cost savings.

4 I am sending a copy of this letter to the Prime Minister, Sir Robert Armstrong and John Sparrow.

Your ever
Kate

12 MAY 1985

12 MAY 1985

010
POST AND TELECOMS



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

KENNETH BAKER'S OFFICE

Tim Flesher Esq
10 Downing St
London SW1

DF
1411

13 January 1983

Dear Tim,

BRITISH TELECOM

Mr Baker thought that you might like to know that British Telecom are today announcing a package of measures designed to benefit the consumer :

Briefly, in addition to the reduction in long-haul international charges announced earlier this month, BT will be:

(i) introducing the low-user rental rebate discussed last year, which will help subscribers who use no more than 100 units. This is obviously relevant to pensioners, and should defuse some of the worries expressed about BT's proposals to increase standing charges later this year;

(ii) deferring all increases in charges, including standing charges, until at least July;

(iii) removing the present £10 charge made when a subscriber takes on an existing telephone line. In future where the line has only been disconnected at the exchange and the apparatus is still in place, no charge will be made for reconnection.

Mr Baker considers these all good news, and a further sign of BT's response to the market pressures we are bringing to bear upon them.

Yours sincerely
NM
N M McMILLAN
Private Secretary

M73/M73ACM

Post & Tels
✓CTU

Prime Minister (2) Post+Tels

Hus 2/7

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

2 July 1982

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

original filed on: -

Post+Telecoms: Future of
Post office: Pt 4

MS

Dear Secretary of State,

BT FINANCIAL TARGET AND PRICES

In your letter of 28 June you sought my agreement to the revised tariff package that Sir George Jefferson has put to you; to the setting of a two year financial target for BT, and expressed the view that a BT bond issue this Autumn could no longer be regarded as a realistic option.

I am content with the modest tariff proposals that BT now have in mind for November 1982, and note that they expect to come forward in due course with similarly modest proposals in 1983.

On the financial target, I am persuaded that our intentions on privatisation make it sensible to set a two year target now, leaving the way clear to set a target for the whole transition period at a later date. BT's willingness to work within (I would hope well within) the external financing projections in the White Paper is of course crucial. In the light of this I agree that the target should be set at 5½ per cent for 1982-83 and 1983-84. You may wish to indicate to Sir George Jefferson that if by achieving greater cost savings he is able to increase BT's self-financing in 1983-84, he should not feel constrained from doing so by the fact that this would lead to his overshooting the target. His objective should be low tariffs and high returns and we can support the achievement of the latter provided it is not at the expense of the former or a higher requirement for external finance.

On the BT Bond, I share your disappointment but accept that there is now no case for an issue this Autumn, and hence no need for an immediate decision on the effect of Clause 52 of the Finance Bill on the bond. My mind is not totally closed to an issue at a later date, but the picture has been transformed by our decision to go for the ultimate goal directly and sell equity. I do not underestimate the size of the task you and BT now have to draft and carry the legislation we agreed at E(TP). This must obviously have priority.

/Finally,

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Finally, I note that you will be having further discussions with BT on this year's EFL. In the light of these discussions we will be able to determine when, and to what extent BT will require access to NLF finance this year.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours sincerely,

Jim Rutherford

PP GEOFFREY HOWE

(Seen and approved by the Chancellor
and signed in his absence).



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

28 June 1982

Prime Minister

②

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

BT is now proposing
a rebate scheme for low
users (see X overlay).

I suggest you await Treasury and

CPRS reactions to these proposals.

MUS 28/6

Dear Geoffrey,

BT'S FINANCIAL TARGET AND PRICES

You will recall that I wrote to Sir George Jefferson on 10 June setting out my views on BT's target, prices and EFL. I have now met Sir George and in the light of that meeting I am now seeking colleagues' agreement to making an early announcement setting BT a financial target of $5\frac{1}{2}\%$ real return on assets on their new accounting base for the two years 1982-83 and 1983-84.

2 Setting the target raises two issues - the duration of the target and its level. BT have suggested the target be set for two years only, since the prospects for 1984-85 are so uncertain. I see some attraction in a three year target - covering rather more of the likely interim period before 50% of the shares would be sold; giving potential investors rather more of a longer-term view of the Corporation while at the same time reassuring consumers that we do not wish to allow BT to make excessive profits in order to encourage private capital. I have to say, however, that while BT are prepared to work within the parameters of the external financing projections in the White Paper for 1983-84 and 1984-85 they are perhaps necessarily rather guarded about the latter year and might conceivably hold that a $5\frac{1}{2}\%$ target for that year required more external financing. So I would be inclined to accept the BT view, recognising that we shall need to announce a target for 1984-85 sometime in the course of the next year.

3 Second, I think $5\frac{1}{2}\%$ on the new accounting base is the right level whether the target is to be for a two or three year period. It is probably closer than 6% would be to the kind of return which would be indicated by the 5% real rate of return criterion; it is what BT have been working on; but most important it minimises the case BT might have for price increases in November 1983 of a higher level than those proposed for this year.



4 Turning now to prices, I accept BT's arguments both that it is preferable to keep to a regular pattern of annual adjustments in November, and that a zero increase this year would have unacceptable consequences next year. Sir George has suggested a package which will result in a 3.3% increase in average bills in November with a 5.4% increase in domestic bills and a 1.6% increase in business bills. He has abandoned plans to increase the minimum public call box charge to 10p. Finally, he proposes to introduce a rebate scheme for low users, which will result in about two million low users receiving rebates. I welcome this and believe it is a sensible and practical step towards meeting the pressure from pensioners in particular for some relief. Details of the proposed package are annexed: I hope you can agree.

5 It is clear there will need to be further discussions with BT on this year's EFL. However, Sir George made it clear that he saw no need for additional finance this year, and that in particular there was no need for a bond issue this Autumn. While I am disappointed that BT will not have an early chance to test the market, I accept this. BT accept that any increase in their EFLs for 1983-84 and 1984-85 is extremely unlikely, and will be looking for ways - including among other things the Bond - to fill what they see as a financing gap.

6 British Telecom are anxious to put their proposed tariff package to POUNC in the next two weeks (when it will effectively become public) against the background of a financial target set by Government. I would be grateful therefore for comments on these proposals by 2 July.

7 I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Your ever
Patel

BT'S PROPOSED TARIFF PACKAGE FOR NOVEMBER 1982

1 BT propose a package which will add 3.3% to average bills, with a 5.4% increase in average domestic bills and 1.6% increase in average business bills. Some of the main components of this are given below.

2 The basic domestic rental, currently £54 per year, will be raised to £60 (an 11% increase). The basic charge per unit will be raised from 4.3p to 4.5p (a 4.6% increase). For local calls the unit will retain its present duration, but for trunk calls it will be lengthened so as roughly to compensate for this increase.

3 Under the rebate scheme, small users will automatically receive a rebate amounting to 3p per unit for every unit less than 100 units per quarter used. Thus, at the extreme case someone who does not make any outgoing calls will receive an annual rebate of £12, reducing the £60 annual standing charge to £48. Thereafter the first 100 units per quarter will effectively cost 7.5p.

4 The increase in charges for individuals with a single telephone and different numbers of units used is set out below.

Number of units used per quarter	Percentage increase
nil	-11%
50	0.6%
100	9.5%
200	8.8%
1,000	6.1%

5 There is no increase proposed in call box charges.

28 JUN 1982



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Part 3 Telecomms

Prime Minister 4

MR. RICKETT

c.c. Mr. Scholar
Mr. Mount

BT TARIFFS

Mr Jenkin will be reporting to you shortly on his discussions with BT, but I think you will find this news encouraging.

WM 20/5

We had a word earlier today about the Prime Minister's desire to see changes in BT's tariff structure which would enable those such as pensioners who make infrequent calls, but have a high degree of need for a telephone, to be able to afford to maintain a set.

The Prime Minister may wish to know that BT told Mr. Jenkins this afternoon, in the course of a presentation of their medium-term plan, of their intention to propose an alternative to the present ratio between standing charges and tariffs, which would offer the option of lower rentals and higher charges with a "cross-over point" at 1 unit per day (i.e. anyone expecting to make less than one local call each day would benefit). BT estimate that between 2 and 3 million people might accept this tariff.

Before going firm on this proposal, I think we would be well advised to look both at its timing - I suspect that its public impact will be soon forgotten - and at BT's wider proposals for their tariff structure. I will not trouble you with the details now, but BT's proposals for rebalancing and de-averaging, designed to get away from cross subsidisation, will have a considerable effect, largely by raising the cost of domestic tariffs relative to business and long distance.

20 May 1982



JQ

Post + Telecoms.

10 DOWNING STREET

From the Private Secretary

28 April 1982

~~BF 12-5-82~~

TELEPHONE RENTAL CHARGES AND PENSIONERS

The Prime Minister has seen your Secretary of State's minute of 26 April. She is content with your Secretary of State's proposal that he should review tariff policy options with BT during the strategic review of policy options that he will be holding with them in the next month or so. She would be grateful if you would let her have a report on this strategic review. She has commented that she still considers that a reduced standing charge, coupled with reductions in the amount of local call time bought for each unit, would be a popular measure.

I am copying this letter to John Kerr (HM Treasury), Brendan O'Gorman (Department of Health and Social Security) and Julian West (Department of Energy).

W. F. S. RICKETT

Richard Riley, Esq.,
Department of Industry.

RM



PRIME MINISTER

TELEPHONE RENTAL CHARGES AND PENSIONERS

Will leave further
consideration to the
review of options.

I would think a
reduced standing charge
and shorter time
would be quite popular.

Prime Minister
Mr Jenkin agrees to review
this problem with BT, but
still remains of the view that
it would be better to give direct
assistance to pensioners, if assistance
is needed, rather than to alter
BT's pricing structure.

LM
27/4

Your Private Secretary's further letter on this subject of 8 April asked for a more detailed justification of my position and also for certain further facts.

2 The facts you sought are these:

- 1) There are about 18½ million subscribers each of whom pay at a minimum a rental of £54 net of VAT.
- 2) The income from subscribers' calls is about £2,500m per annum which would have to be £185m - 7½% - greater to recoup the amount foregone if rentals were reduced by an amount of £10 net of VAT.
- 3) The amount involved could be found through an increase in present unit charge of 4.3p of a little under 0.4p (again net of VAT).
- 4) The probability is that BT would in fact seek to raise the extra revenue mainly from reductions in the amount of local call time bought for each unit rather than through an increase in the charge per unit. Such reductions would have to be of the order of 20%,



2.

reducing the time per unit for peak, standard and cheap rate calls from 90 seconds, 2 minutes and 8 minutes to say 75 seconds, 1 minute 40 seconds and 6 minutes.

This might be not unreasonable for residential customers who would be enjoying the lower rental but it would hit hard the local business community who felt very ill done by last year when the periods bought per unit were sharply reduced.

3 These are the facts and it is arguable that if we want to do something special for the pensioners we should deal directly with them by means of a telephone voucher or something similar. I shall, however, be having a strategic review of policy options with BT in the next month or so and will certainly review tariff policy options with them then, including the possibility of doing something more sensitive for social reasons. But we should recognise that the detailed structure of tariffs must be for BT, particularly in view of the substantial changes in tariff structure which are taking place already and which arise from the pressures which liberalisation and the introduction of competition are imposing on BT to cut down cross-subsidisation between different services. These pressures will tend to result in a higher proportion of BT's income deriving from domestic users in the future.



3.

4 The best hope for the pensioners as for the community at large is for lower charges for communications generally and this objective is very firmly in our mind.

5 I am copying this minute as before.

for *MB*
P J

26 April 1982

Department of Industry
Ashdown House
123 Victoria Street

27 APR 1982

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Box

10 DOWNING STREET

From the Private Secretary

8 April 1982

Telephone Rental Charges and Pensioners

The Prime Minister has seen your Secretary of State's minute of 7 April giving his reactions to her suggestion that telephone rental charges for all customers might be reduced so as to help pensioners, with increased charges per call to recoup lost revenue. She is not convinced that this option should not be pursued. She would like it to be studied in more detail. In particular she would like to see figures on the increase in charge per call necessary to produce a given reduction in rental charges. In short, she would like to see a more detailed justification of your Secretary of State's position.

I am copying this letter to John Kerr (HM Treasury), Brendan O'Gorman (Department of Health and Social Security) and Julian West (Department of Energy).

W. F. S. RICKETT

Richard Riley Esq
Department of Industry.

JFF417



Prime Minister

Handwritten notes:
The Government
in power have to see
that the laws on
charges for calls must
be adjusted

WTL
7/4

PRIME MINISTER

TELEPHONE RENTAL CHARGES AND PENSIONERS

Handwritten notes:
I look to me as if
this has had only cursory
consideration. I don't think that
will do. I shall need to see some
figures of the effect of various
charges in the proportion of
standing charge: call charge.

Your Private Secretary's letter of 22 March asked for my considered reaction to the possibility of pensioners being helped by reduced rental charges for all customers coupled with increased charges per call to recoup lost revenue.

2 My considered view is that this is not a course we can reasonably ask BT to take on behalf of pensioners and other small users. BT must align their charges more closely to costs and any device to help the pensioner would conflict with this. The very existence of a telephone in a home imposes costs on BT which must be met and I would not wish telephone users generally, including industrial users, to subsidise those who have a telephone but do not use it much. It seems to me that those who have no telephone at all have at least as good a case for any subsidy that may be on offer.

3 I mentioned in my earlier minute that the cost of the telephone rental relative to pensioner income has fallen quite dramatically over the last decade; the rental now represents a little over half the 1972 proportion of the basic pension.



2.

4 I am sorry that my reply to your proposal has to be negative.

5 I am sending copies of this minute to the recipients of my earlier one.

PJ

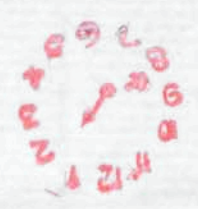
P J

Department of Industry

7 April 1982



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7 APR 1982



B/K Port, Telecom

10 DOWNING STREET

From the Private Secretary

22 March 1982

TELEPHONE RENTAL CHARGES AND PENSIONERS

The Prime Minister has seen your Secretary of State's minute of 18 March.

The Prime Minister has commented that the paper by officials attached to your Secretary of State's minute does not look at the option that most pensioners put to her: the possibility of reducing rental charges for all customers, and increasing charges per call to recoup lost revenue. She feels that many pensioners need a telephone to cover emergencies, and to take incoming calls, but that the majority of them make very few outgoing calls. They resent the high rental charges they have to pay for a telephone on which they make few calls themselves.

The Prime Minister would welcome your Secretary of State's considered reaction to this option.

I am copying this letter to John Kerr (HM Treasury), Brendan O'Gorman (DHSS) and Julian West (Department of Energy).

W. F. S. RICKETT

Richard Riley, Esq.,
Department of Industry.

GR



PRIME MINISTER

Prime Minister 2

Mr Jenkin concludes that changes in the structure of BT's prices is not an answer to the pensioner's concerns. The paper by officials suggests that if help is to be given to pensioners with telephones it should come from the DHSS.

Following your meeting on 18 February with the National Pensions Convention Steering Committee, you asked for a report on whether anything can be done to meet the delegation's criticisms of standing charges for telephone services.

WM
18/3

point in that some pensioners make very few calls out and return the phone for calls in.

2 The delegation's concern is understandable. The telephone is widely used in all sections of society and pensioners might appear to need it more than most. I have great sympathy for the idea that all pensioners should be on the telephone at a price they can afford.

3 The problem is one of cost. Each time it connects a subscriber, British Telecom has to make available quite a bit of equipment in the local line network and local exchange reserved solely for that subscriber's use, and this has to be paid for in one way or another. British Telecom's policy is to ask the subscriber to pay for it - together with associated interest charges, maintenance costs and overheads - over a lengthy period of years through the rental charge. The attached paper by my officials examines the arguments, but comes to the conclusion that there is no way of reducing the burden on pensioners without increasing charges to other subscribers unfairly or, alternatively, shifting the burden onto the PSBR.



4 In the light of these points, I believe that I must concentrate my policies on encouraging BT to become more efficient, so as to reduce the costs of its services to all its customers. As it is, the cost of the telephone rental has fallen quite dramatically, relative to pensioner incomes, over the last decade. Efficiency improvements by BT should assist in eliminating the losses which BT currently suffer in the rentals sector. This must be helpful to all consumers including pensioners.

5 In addition, BT's financial position in 1982 should be such as to enable them to get by without price increases on the same scale of those of the last two years. We can influence this through our power to set the financial target and I intend to review the options before BT with Sir George Jefferson and members of his Board when I meet them in the late Spring to discuss the strategic choices before them. In that discussion I shall bear in mind particularly the implications of price increases for pensioners and others for whom the rental payment bulks large.

6 I am copying this minute to Geoffrey Howe and to Norman Fowler and Nigel Lawson.

P J

18 March 1982


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TELEPHONE RENTAL CHARGES AND PENSIONERS

1 There are at present about 2.3 million pensioner households (rather over 35% of the total) on the telephone, and this number is projected to increase to around 4.3 million in five years time. The cost of telephone services has fallen in real terms - the rental was 8% of the pension of a single person in 1970, and is 4% today. The views of the National Pensioners Convention Steering Committee reflect a common feeling among pensioner organisations that the telephone is becoming more of a necessity than a luxury to the pensioner population, and that the current rental of £13.50 a quarter represents a considerable burden upon them.

CAN BRITISH TELECOM HELP?

2 British Telecom's rental charge is designed to cover that part of their costs which they incur to provide service to a subscriber whether or not he makes any calls; these costs comprise chiefly the depreciation charge on the equipment in the local exchange and local line network which has to be kept continuously available for the subscribers sole use, together with ^{smaller} elements for interest payments, billing, and a share of administrative overheads. Call charges cover the costs of those parts of the network (eg the actual switching equipment in exchanges) made available to a subscriber only when making a call, and connection charges cover the cost of connecting the subscriber to the local line network and installing his telephone. BT currently makes a loss running at about £250m a year on the part of its business paid for by the rental charge, and this is made good by high profits on long-distance and international calls. So any move to reduce rentals generally at the expense of other prices would run severely counter to BT's policy of seeking to charge on an economic basis, which they can expect to pursue the more strongly as competition has a greater impact.

3 But could BT reduce or eliminate its rental charge to pensioners only? It might in theory recoup the lost revenue by:

- i Increased borrowing, but this would put up the public expenditure totals;
- ii Reduced investment, but this would hit the vital modernisation programme and reduce BT's ability to provide new connections including new connections to pensioners.

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(iv) reducing rental charges for calls.

iii Increasing other charges (eg by recouping the £125m a year lost through ending rental charges to pensioners by a £7.50 increase in the annual rental of other subscribers), but the customers adversely affected would hardly agree that this was fair (and the cost to them would increase as more pensioners took up the offer of a cheaper telephone service).

4 All of these options would breach the principle that BT makes decisions on prices on a commercial basis; and they would moreover tend to direct their assistance towards the better off pensioners at least until the telephone becomes more universal amongst pensioners than it is at present.

5 We have also considered whether it would be possible to provide pensioners with a cheaper service through the greater use of shared lines. However, BT advise that the capital cost of providing a shared line to a subscriber is almost as great as that of providing a single line, and that the maintenance charges are higher; so no major reduction in rental results. We have also considered whether the cost of a telephone to a pensioner could be reduced by restricting its use (except in emergencies) to off-peak times of day. But here again we have found that the capital and maintenance costs would not be greatly reduced, so that no great saving in rental would be offered, even assuming a restricted service acceptable to pensioners.

6 The conclusion is therefore inescapable that the only satisfactory way for BT to reduce charges to pensioners is to become more efficient. The Government's policies of introducing competition into telecommunications are designed to encourage this. We already have encouraging evidence that the competitive message is sinking home in BT, and that it will help foster a climate in which inefficient working practices can be tackled and excessive wage demands countered. Increased efficiency should enable BT to continue the trend of reducing rentals relative to pensioners incomes once the losses in this sector of the business have been eliminated.

CAN THE GOVERNMENT OR LOCAL AUTHORITIES HELP?

7 Selective assistance to particularly needy pensioners is a matter for the Government or for local authorities. Under existing legislation, local authorities are empowered to provide assistance



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towards the telephone rental and installation costs of elderly, sick and disabled people particularly in need; 91,000 people in England (more in the UK) received assistance last year. Any proposal for a larger scale scheme, administered by the Department of Health and Social Security or local authorities, would inevitably increase the calls made by pensioners on the working population, to which the Prime Minister referred in her meeting with the National Pensioners Convention Steering Committee. Any such proposals would be a matter for the Department of Health and Social Security to consider.

