

PREM 19/1599

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CONFIDENTIAL FILING

Future of the Post Office and
British Telecom

POST AND
TELECOMMUNICATIONS

Mercury Communications

PE 1: MAY 1979

PE 9: AUGUST 1984

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6.8.84		13/2/85					
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19.10.84		14.5.85					
23.10.84		16.5.85					
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5.11.84		6.6.85					
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3.12.84		24.7.85					
10.1.85		25/7/85					
29.1.85		30.7.85					
8.2.85		ENDS					

PREM 19/1599

PART 9 ends:-

PW to AT

30.7.85

PART 10 begins:-

Ch Exch to SS/DT1

1.8.85.

Prime Minister (2)
AT
30/7

OFTEL vindicate BT's second
sourcing policy, but recommend
that its application be tempered.

MR TURNBULL

30 July 1985

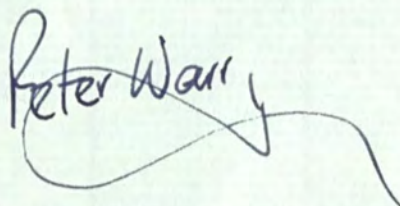
OFTEL REPORT

Bryan Carsberg has reported on British Telecom's (BT) proposal to meet some 20% of their digital exchange requirements with the Thorn-Ericsson System Y instead of the British developed System X from Plessey or GEC. Carsberg endorses BT's decision but recommends that System Y purchases should be limited to a maximum of 20% for the next three years in order to give GEC/Plessey time to adapt to the new competitive environment. If at the end of the three years BT wish to further expand System Y purchases then they should endeavour to maximise technology transfer and UK content of System Y, whilst continuing to support System X export efforts and the UK's own R&D capability.

If Plessey and GEC had used the easy profits during the fat years when BT was a nationalised industry to make themselves competitive, then System Y would never have had a look-in. But now that the cold winds of genuine competition (as opposed to mock public sector competition) are blowing, they are screaming foul. They have no moral case.

It is of course in BT's interest that the System X capability should survive, but their judgement - and ours too - is that GEC/Plessey will survive anyhow. George Jefferson wants GEC and Plessey (and perhaps his own purchasing people) to understand that the rules of the game have changed, he also wants to ensure that OFTEL does not become a soft touch, hence he is shouting loudly about the OFTEL report. But in reality we wonder whether he would actually want to place more than the 20% on System Y to which he is committed.

Carsberg's report is clever. It supports BT in principle, yet assuages the GEC/Plessey lobby without actually giving them anything of substance. The Government should do likewise: it should support OFTEL's report whilst, if necessary, suggesting that BT could ask to have the matter re-examined if it needs to increase the System Y percentage beyond OFTEL's recommendation of 20% during the next three years.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

PETER WARRY

B/12 Tuesday

~~cc NO~~

Anything leads before 12 noon to PM



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Secretary of State for Trade and Industry

25 July 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
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John A. ...

"SYSTEM Y": DG/OFTEL'S REPORT

NO.
GR -
940

British Telecoms' decision to purchase Swedish-designed digital telephone exchanges from Thorn-Ericsson, to supplement (and arguably supplant) its purchases of System X, provoked considerable criticism, reflected in Lord Weinstock's correspondence with the Prime Minister. Following representations from industry interests and from some MPs, Professor Carsberg - the Director General of Telecommunications - undertook to investigate the issue and to give his opinion. His report was published on Tuesday, 23 July; a copy is attached.

2 Professor Carsberg's report reviews the background of BT's involvement with System X and its decision to seek a second source of digital exchanges (System Y), concluding that BT's decision is commercially justified and need not harm the prospects for System X. However, he notes that any significant increase in the proportion of BT's future ordering going to System Y might well damage the viability of the System X suppliers and recommends that BT restrains its orders of System Y for 3 years to the levels currently envisaged (between 300,000 - 500,000 lines a year, or not more than 20% of BT's total programme). Thereafter, System X should be able to compete with System Y for all BT tenders beyond the 20% level; and efforts should be made to enhance the UK content (including system development) of System Y.

3 The report considers at some length the longer term outlook for UK capabilities in digital telecoms switching, stressing the importance of high volumes of production, export orders, and a continuing domestic R&D capability. Carsberg notes that opinions remain divided on whether the UK market alone (between 2m - 3m lines a year) can support a viable industry, but emphasises that success in overseas markets is essential if System X is to gain the volume economies necessary to stay competitive with systems



from much larger supplies (for example, Ericsson are selling over 5m lines a year of their AXE exchanges, supplied as System Y). He recommends that Government give assistance to help the export of System X, echoing the industry's criticisms of the Government for opening access to the UK market without securing reciprocal access to protected telecoms markets overseas.

4 The strategic importance of retaining an indigenous capability in advanced telecoms technology is stressed, and set against the fear that unrestricted competition might damage that capability in the UK. As well as arguing for the maximum technology transfer as part of the System Y arrangement, the report suggests that other ways of maintaining UK expertise in this area, for example a national R&D centre, should be explored.

5 DTI Ministers will be discussing the report with Professor Carsberg and with the companies (including BT). While they remain far from happy with BT's decision and with Carsberg's guarded vindication of it, GEC and Plessey are likely to welcome the report as confirming their case that the UK industry faces real problems and for raising the issues for further debate. BT for their part are likely to resent the implied intrusion into their commercial discretion over procurement policies. The crucial issues for all the (domestic) parties, however, is the future size and structure of the telecoms industry, and this will doubtless be the subject of continuing discussions over coming months.

6 The report was not requested by the Department and there is formally no call for a public response. It is quite likely, however, that there will be Parliamentary pressure for some response. We would not wish to respond publicly in any substance before the discussions with the companies, and we will use the recess for that.

Yours Sincerely,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

BRITISH TELECOM'S PROCUREMENT OF DIGITAL EXCHANGES

A Report by the
Director General of Telecommunications

Introduction

1 At the end of last year, British Telecommunications plc (BT) invited tenders for a second range of digital telephone exchanges, to be known as "System Y". Until then all BT's plans for the modernisation of its inland network had centred on the "System X" exchanges - which the company had itself taken the lead in developing. The decision to purchase System Y from Thorn Ericsson Telecommunications Limited - a joint Swedish/UK firm, using Swedish technology but 51 per cent UK owned - was announced at the end of March 1985. I received a number of representations about BT's decision, including an approach from an all-party delegation of MPs. These representations were overwhelmingly opposed to BT's approach. The complainants expressed the fear that BT was exercising its unique buying power against the public interest. They suggested that UK firms had been unfairly excluded from the tender, and that the decision to go for a second range of exchanges would reduce the market for System X, while harming its export prospects.

2 My duties under the Telecommunications Act 1984 (the Act) are such that I must consider any matter which relates to telecommunication services provided, or telecommunication apparatus supplied, in the UK and which is the subject of

representations made to me. Given the widespread concern, I concluded that I should investigate this matter in detail.

3 I started my investigation by visiting the companies producing System X (General Electric Company plc (GEC) and Plessey Telecommunications and Office Systems Limited) and the System Y company (Thorn Ericsson). I was provided with useful memoranda and background information by all these companies. I was also given a full briefing by BT. Representations were received from the British Telecommunications Unions Committee and the Electrical Electronic Telecommunication and Plumbing Union among others. Later in my investigation I decided that I would have to take some view about strategic factors affecting the likely future development of the UK industry. To help with this, I asked for, and received, advice from one firm of consultants and I held informal discussions with another.

Background

4 Throughout the world, telecommunications networks are undergoing rapid modernisation. A wholly new, digital, technology is being introduced. This technology will increase the number of services offered on the telephone, and at the same time will improve reliability and overall performance: calls will be clearer, breakdowns fewer, and costs will be lower. At the centre of this technology are the new local, trunk, and international exchanges or "switches" which combine computer control and digital operation. Inevitably a complex period of development is needed to produce a fully working system. Plans

must take account of the need to link into existing, pre-digital, technology until such time as complete replacement is possible. Further, the speed of investment is constrained by financial and economic factors. Therefore, much as consumers might like to obtain the benefits of the new system immediately, it will inevitably take some time to be introduced.

5 Each major nation has tended to find its own individual approach, generally led by the public telephone company. The result is that, despite high costs of development, many different large digital switching systems are available in the world today (one estimate gives the number as about twenty). System X is the single UK player in this increasingly competitive game. It has many advanced features and progress with implementation in the UK has been ahead of that in most other countries.

6 The genesis of System X lay in a joint Post Office (ie BT)/Industry Study Group which started work in 1969 (henceforth the current designation - BT - will be used). The original System X agreements were signed in 1977, establishing a consortium in which BT, GEC, Plessey, and Standard Telephone and Cables plc (STC) were four equal partners sharing the development work, although BT was primarily responsible for funding and for specifying the system performance requirements. The product was exhibited in Geneva in 1979 and the Baynard House trunk exchange was handed over in July 1980. In the early 1980s a reorganisation was agreed, whereby BT still defines the requirements and provides substantial development funding, at

least during the transitional stages; in October 1982, a new specification was agreed with BT (Systems Enhancement Programme 1) and Plessey was appointed the prime development contractor and GEC the major sub-contractor; STC withdrew from the programme.

7 The objective behind the System X programme has been to develop a family of exchanges with the capability of evolving to meet a variety of potential needs and advances in technology. The facility which makes this possible is the modular design of both the hardware and the software. This allows the building blocks to be configured in various ways to meet varying circumstances. Thus individual parts of the system can rapidly be amended to take advantage of new developments. At the present moment System X exchanges are in operation both for trunk and local exchanges - the first normal production trunk exchange was opened in January 1984 (at Coventry), and the first large local exchange in September 1984 (in St Vincent), and the first similar exchange for BT in May 1985 (at Baynard House in the City of London). A contract for a second System Enhancement Programme was placed in early 1985. Nineteen System X exchanges are now in service and a rapid increase in the number of completed installations is expected over the next year; plans are for installations in service to increase to 300 by March 1986.

8 Plessey now have factories capable of producing System X in the Liverpool area and in Northern Ireland while GEC have factories at Coventry and Kirkaldy in Scotland. Current employment in the design, manufacture and marketing of public

switching systems, including old as well as new technology, is about 14,000 - but without substantial further growth of orders, employment will inevitably fall. BT is planning for an increase in orders from Plessey and GEC above the 1984-5 level of 900 thousand lines: the current level of orders is 2 million lines, and BT states that its aim is to purchase 2 to 3 million digital lines (ie System X and System Y) a year for the rest of the decade. It has ordered 100,000 lines from Thorn Ericsson for delivery in 1986-7 and a minimum of 300,000, which may be increased to 500,000, for the following year. The System X manufacturers have told me that they planned their capacity on forecast orders from BT of 3 million lines per year which will clearly not now be achieved. Plessey and GEC have made substantial investments in design and manufacture technology and have available to them some of the most modern facilities in the world. They could easily meet BT's total requirement for digital switching. They need a high volume of orders to recoup their costs, including the future costs of keeping the system abreast of the latest technology.

Preview

9 I want to begin my analysis of the issues by identifying what I see as the central dilemma of this case. On the one hand, my duties under the Act place heavy emphasis on the promotion of competition and the interests of consumers. BT has wanted to have a second switch to put the manufacturers of System X under some competitive pressure and also to reduce supply uncertainties;

and it has seen this as in the interests of consumers in that the competitive pressures will facilitate cost-effective modernisation of the network. If I were to resist the decision I should be going against the primary rationale of the regulatory regime in telecommunications. On the other hand, GEC and Plessey have had to adapt to a large shift in their environment. The purpose of introducing competition is to strengthen them - not to damage them; and too rapid a shift towards System Y may give them too little time to adapt and hence damage them rather than strengthen them. Furthermore, exporting is important to the success of System X but its manufacturers face an asymmetry in international trade; while UK markets are open to suppliers from overseas, the attempts of British companies to export are impeded by de facto exclusion of competition from some countries and the need to compete in others with companies from countries whose governments give direct assistance to exports. These are the key issues that must be taken into account in my investigation and they - together with related issues - will be discussed in detail below.

10 In the next part of the report (paragraphs 11 to 23), I consider the justifiability of BT's decision independently of wider strategic issues relating to the future development of the UK telecommunications industry and the effects on international trade. Those wider issues are considered in paragraphs 25 to 39.

) BT's case

11 BT has both publicly, and in discussions with me, affirmed its commitment to System X - a system on which it has itself spent at least £350m in development expenditures (a sum which would be considerably greater in current prices). It expects that System X will remain the major type of digital exchange in the UK network. But it believed, when it placed the order for System Y, that past experience with System X indicated doubt about the timing of completion of elements of the programme. BT states that it is anxious to proceed with the modernisation of its network as rapidly as it can. The process of liberalisation means that it is now under actual and potential competitive pressure in some of its markets from the new national telecommunications operator, Mercury Communications Limited. Mercury will from its start be using the latest technology in its switched network, and so should be able to offer its customers a uniformly better performance than that available on the older parts of BT's network. Hence BT's need to meet this challenge as rapidly as possible.

12 BT gives two main reasons for wanting a second switch. In the first place it needs to know that should particular suppliers run into difficulties it will be able to obtain sufficient new equipment to carry through its network modernisation programme on a realistic timescale. In other words it needs security of delivery. At the same time, BT makes little secret of the fact that given its primary commitment to System X, it has the need to

) ensure that the companies involved feel under a sufficient commercial pressure to maintain their performance - they have to be made aware that failure to deliver on time and at a competitive price will lead to some reduction in orders. In this respect it seems to me that BT is acting with normal commercial prudence: no firm wants to exclude itself from some flexibility of choice in its supply channels, particularly during the development phase of a key product. Further, BT is acting in no way differently from several other major PTTs, and it was actively considering the possibility of another source for public switching equipment well before privatisation. The new competitive environment does, of course, alter the pressures on BT management. The result has been that the company has placed several other important contracts overseas as well as System Y. I am currently also concerned with one of these in particular - the decision to buy from AT & T/Phillips the equipment for the Derived Services Network (to be used for the Link Line service giving customers cheap, or even free, telephone calls to firms).

Some objections to BT's course of action

13 It is easy to see BT's objectives. Nevertheless doubts remain about the course which it has chosen. The development of System X is at a pivotal point. After years of research and development work and the redevelopment of their factories, the companies are now poised for mass production. The restructuring which was started in 1982 is now fully in place. Naturally the companies want to be able to achieve the largest possible levels of output. The figures which I have seen suggest that there are

significant economies of scale so that with a loss of 250,000 lines to bring output down to 1 million lines, each company might experience an increase in average cost of production per line of about 10% - this might represent the position if BT ordered the maximum of 500,000 lines of System Y in 1987-8; if BT went further so that the loss were 500,000 lines to each System X company, the increase in cost per line could be 20% or more, depending on the level of orders remaining with System X (i.e. on where total orders fall in the range 2 to 3 million). Or, to put the point another way, the incremental cost per line over 1 million is only a little over half the average cost per line for the first one million. The diversion of some orders to Thorn Ericsson will, therefore, tend somewhat to worsen the position of Plessey and GEC, as regards average cost.

14 The decision has, of course, increased the competitive pressures on Plessey and GEC. Some have argued that the existing structure for the production of System X already provided for sufficient competition, since both Plessey and GEC compete in the manufacture of exchanges; but the development of the system has not been subject to competition, and development is a key point; and although existing arrangements for development may be changed after 1986, the commonality of development up to then limits the extent of competition between GEC and Plessey. Some have also argued that the mere process of competitive tendering would have placed sufficient pressure on the System X suppliers, and that BT did not need to go so far as to commit itself to the purchase of a second system. Clearly this argument has some merit, but I am

inclined to accept BT's point of view that competition cannot be made credible in the absence of a decision actually to place some orders elsewhere.

15 A widespread complaint has been that BT was wrong not to allow GEC and Plessey to tender for the System Y contract, so that they could have bid a price based on marginal costs if they wished. BT's answer to this complaint is straightforward: the company had decided that it needed another source of supply, and so it did not want to give the order to a System X company. Moreover, BT is already well aware of Plessey's and GEC's capabilities and prices, and knows how readily either company could achieve a rapid increase in production. My own view is that BT's decision was commercially reasonable, and that it would not have achieved its objectives without actually obtaining supplies from another source.

16 People have argued that "fair competition" or "real competition" cannot exist in the circumstances of manufacturing of telecommunications in the UK - and hence that any attempt to promote it is necessarily futile. That argument has much merit if competition is seen as effective only in a market that involves many buyers and many sellers, operating without barriers. BT is a very large company - dominant on the buying side. If it buys only from the single supplier who offers the best deal, it will force other potential suppliers out of the market and reduce the competition to its own probable disadvantage. It can sustain competition only by managing it to some

21 A key argument of the complainants about the BT decision is that it should be opposed on the ground that UK employment will suffer. In considering this argument, I will first set aside the important issue of maintaining a development capability in the UK; I deal with this separately in paragraphs 35 to 39. The BT decision will inevitably mean that employment in Plessey and GEC factories will ultimately be lower than would otherwise be the case, but the agreement that BT has with Thorn Ericsson ensures that there will be a rapid build-up in employment in the UK for the production of System Y exchanges based in Thorn Ericsson's Scunthorpe factory. Figures I have seen suggest that a rapid increase will take place in the UK content of these exchanges to about 70 per cent of manufacturing cost over the next two years; and that this, combined with a continued build-up in the number of programmers employed at the Ericsson software development company in Brighton, means that over 500 new jobs could be created in the UK in the next two years, with the prospect of a further 500 if Thorn Ericsson's output is increased to 500,000 lines a year. A similar increase in System X output might well have increased UK employment by more than this but the difference appears not to be very large. Thorn Ericsson have provided me with information about their intentions not only for employment at their Scunthorpe factory but also for acquiring components from UK suppliers. Their plans support the estimate of build-up in UK content, given above. However the reassurance provided by this information will be increased if it can be shown to be borne out by actual working experience and I hope that Thorn Ericsson will feel able to publish information about their progress in increasing UK content at regular intervals in the future.

) 22 The balance of employment gains and losses is, of course, of great concern to the localities affected. However, my duties under the Telecommunications Act 1984 mean that I must primarily be concerned with the health of the UK telecommunications industry as a whole in the interests of consumers. I could not suggest that particular policies should be followed solely for reasons of the employment generated if other effects for the telecommunications industry or for users were deleterious. In any case, I do not feel that total employment in the UK as a whole will be very much affected whichever path is chosen. The manufacture of large exchanges will become increasingly automated using skills that are mainly different from, and more easily assimilated than, those needed for the production of electro-mechanical equipment. The greatest employment of highly skilled manpower is likely to be at the development stage, particularly in software.

23 The one remaining issue to be considered in this part of the report is a key issue: people have argued that a need exists to recognise the difficulties faced by GEC and Plessey in the transition from a situation in which they had a special relationship with BT to one in which the relationship is more at arms length. The object of introducing competition is to strengthen the old-established suppliers; a transition that is too rapid may have the effect of damaging them and impairing their ability to compete. Time is needed to allow the manufacturers to complete the redevelopment of their productive process. This raises the question of how rapid is too rapid. BT

) states that the transitional period has already started to run in that the System X suppliers have known for at least two years of its wish to introduce another source of supply. However, I am not convinced that a sufficient time has yet been allowed. BT has placed an initial order for System Y which is just sufficient at its lower level of 300,000 in year two (or perhaps a little higher than just sufficient) to allow Thorn Ericsson to operate a factory on a reasonable scale; that seems to be a justifiable beginning. Furthermore, no guarantees can be given that a particular level will be held absolutely because that would remove the element of incentive in the competition. However, I do believe that any further shifts of orders away from System X and to System Y should be limited to nominal amounts for a period of about three years so that the System X manufacturers have a further opportunity to adapt to the new situation, subject to an exception if System X manufacturers fail to meet reasonable cost and delivery requirements in the meantime. The loss of a maximum of 20% of annual orders for lines to System Y makes the job of System X manufacturers harder but neither has argued to me that this job has become impossible; however, the loss of a further 20% (say) in the very near future would be much harder to bear. This kind of transitional arrangement should not last indefinitely. After three years from the placing of the initial System Y order, a further element of competition might be appropriate, subject to what I say below about technology transfer.

) 24 Having dealt with a number of the major points made against the BT decision, I now turn to what I see as the two main issues of contention which still remain to be considered. These are as follows:-

(i) What should the future "rules of the competitive game" be between the System X suppliers and Thorn Ericsson?

(ii) How can the future health of the UK telecommunications switching industry best be secured?

Rules of the Game

25 We are now in a period of transition - the production of System X is becoming firmly established, while that of System Y is just being set up. I have accepted the rationale behind BT's desire to have access to competitive systems; and I have also stated my view that the orders for System Y need to be limited during the transitional period. However, if any future shifts in the proportions of orders for System X and System Y are made, BT must accept the responsibility of ensuring that it is scrupulously fair to all the parties. I suggest that if BT alters the proportions of its orders, it should seek tenders from both the System X and the System Y suppliers for the additional lines. The presence of System Y in the market would have met BT's real needs for security and for competition outlined above, whereas commitment to future tenders on this basis would give the System X suppliers assurance that their capabilities were consistently

) being taken into account, and that they were not being unfairly shouldered aside by System Y orders. I suggest that BT declare its intention to adopt this procedure.

26 For competition to be effective, future tenders which are open to both Systems will have to be conducted on an equitable basis and all parties must be assured that the standards by which they are being judged are fair. BT must make clear the criteria by which it is evaluating tenders. Where flexibility is allowed in the interpretation of standard requirements this should be explicit. Further, all the manufacturers should be satisfied that the performance of their exchanges is being demonstrated in broadly similar operating environments. System X has had to be installed in some of the most difficult network operating situations in the world. The producers would rightly feel aggrieved if System Y was used only in less demanding environments. Moreover, BT itself will presumably wish to ensure that the two systems are broadly interchangeable, otherwise it will have failed to impose the necessary competitive spur.

Industrial Policy Considerations

27 An important element in the success of System X is its ability to gain export sales. Widespread agreement exists in the industry that the large fixed costs of operation, including notably research and development expenditures, have magnified the need for companies to have a large market over which to spread those costs. Two main scenarios have been suggested to me.

) First, that the industry will have to position itself, at some time in the foreseeable future, to start the development of the next generation of switching equipment, which may be centred on the need to deal with broadband and high rate digital switching. This will be an extremely expensive process - people have spoken of costs of up to £1 billion at current prices - and the cost could almost certainly not be covered by a single firm even operating with the whole of the UK market. In the context of that scenario, the introduction of System Y to the UK would not be critical in the sense that the whole of the UK market is anyway not big enough to support such development. The second scenario, and the one that seems of more immediate relevance, comes from the observation that the industry cannot, at present, identify a line of development that indicates the need for a system that is radically different from the present one. Development of the present system is likely to meet all foreseeable needs. That development will be very expensive but not so dramatically expensive as the development of a fundamentally different system. On this scenario, the UK market could provide a big enough base, though a bigger market would give greater strength, and the loss of up to 20% of the market to System Y is a significant handicap but is not fatal to the effort.

28 Both manufacturers of System X, with support from BT, have been making concerted efforts to sell the system abroad. They have been hindered partly by the illiberality of telecommunications markets, and partly by the fact that they have only

) recently been able to demonstrate a fully developed system in operational conditions. Further they have met fierce competition from other producers. To this date no large export order has been obtained, though many are now being pursued and the excellent performance of the System X exchanges has been widely recognised internationally. I have been impressed by the plans the companies have for generating export orders now that they can point to fully functioning exchanges in the UK.

29 BT says that it has, in the past, made every effort to support the export drive. Clearly it is in BT's own interest to ensure that the system with which it is so closely associated should have a firm economic base. However, some people have suggested that the System Y order has now shaken the confidence of prospective buyers in the British product. They say that other PTTs will have noticed that BT is not willing to put all its eggs in the System X basket, although the argument could be turned on its head by the suggestion that BT's move has merely shown that System X is of equivalent quality to the best exchange available under competitive tender from the world as a whole. The long standing suspicions that the particular, and possibly idiosyncratic, standards which BT has imposed upon its suppliers have harmed exports are also relevant to this point - this suspicion was voiced about the earlier generation of TXE4 exchanges in particular.

30 I believe that System X could be a world beater. Ever since it was shown in Geneva in its pre-production state there has been general agreement that it is technically among the best systems available in the world. Delays have been experienced with the progress of development but its manufacturers are confident that these problems are now well behind them. Were world telecommunications markets wide open to competition, I feel that System X would stand an excellent chance of success. But international competition is not effective, and we face the danger that market assymetries may work to the disadvantage of the UK. The number of lines expected to be ordered each year in countries (outside North America) where UK firms can compete on an even basis is a small proportion of total world demand. A number of those who were worried about the BT decision suggested that the UK had now effectively opened its own market to competition without gaining reciprocal arrangements. I sympathise with this view, and regard this as one of the most important of the issues which have arisen in the course of this investigation. As John Butcher, Parliamentary Under Secretary for Industry has said: "A particular complaint from UK equipment suppliers is that foreign competitors now enjoy improved access to the UK market, while those competitors' own home markets - with the single exception of United States - remain at least partially closed to British (and other peoples') exports." He has said that he will be looking closely at the actions which the UK government could appropriately take to remedy the situation. More broadly, of course, the dangers of protectionism, and the benefits of open-ness have been firmly identified in reports stemming from the General Agreement on Tariffs and Trade - though telecommunications products are not yet covered by the GATT.

) practice. Nevertheless, the EC through its Information Technologies and Telecommunications Task Force, is itself already pursuing a programme of joint European research in the proposed RACE project (research and development on advanced communications for Europe). The precise implications of ventures of this kind for the individual companies are for them to decide. Experience in other fields and in other countries suggests that collaboration between UK companies and those elsewhere in the world may be necessary as a means of securing the UK's place in world markets. PTT's also have a role in actively encouraging such collaboration if early results are to be achieved.

The importance of telecommunications technologies

35 Telecommunications technologies are so central to the current wave of technological innovation that a nation with no basic R & D capability in this field would, I feel, be lacking in one of the basic attributes needed to maintain a position among the leading industrial nations. Thus the UK would, in the long-run, be the loser if it no longer had home-grown engineers with experience of the latest telecommunications technologies - though I accept that the convergence of telecommunications and computer technologies tends to broaden the base from which such people can be drawn. In the past, the fact that a significant number of people have been employed in the development of advanced telecommunications systems - both at BT's own research centre at Martlesham Heath and the companies' centres - has benefitted the UK both directly, as a result of the products produced there, and

) indirectly as the ideas produced in telecommunications have spread into related fields. Indeed, these indirect and inevitably unquantifiable effects may have been as important as the direct ones - an example is that of innovation in process control.

36 One of the main concerns that has been expressed to me is that market forces, if allowed completely free play, may bring about a situation in which technological skills are not maintained in the UK. Having reference to my duty to further the interests of the telecommunications industry as a whole and to promote its R&D, I should like to be reasonably satisfied that UK firms will have access to the resources needed to maintain an effective productive presence in the industry. I believe, therefore, that steps must be taken to ensure the availability of a new generation of UK engineers and programmers, with the necessary skills.

37 One partial protection of the UK technological facilities would be to insist on the transfer to the UK of the bulk of the System Y technology. Thorn Ericsson have assured me that L M Ericsson intends to use UK employees to expand the Brighton based software company - Production Control (Ericsson) Limited (a subsidiary controlled by L M Ericsson not by Thorn Ericsson) - in line with the System Y orders so that the AXE 10 exchanges can be adapted to UK use. In this way UK engineers and computer programmers will develop the skills necessary to maintain and develop the Ericsson exchanges. If BT expands orders for System

) Y beyond the level in their current plans, I believe that formal assurances should be sought of L M Ericsson that "technology transfer" will continue. In the meantime, I am encouraged by the decision by L M Ericsson to pass control of Production Control (Ericsson) to Thorn Ericsson on 1 April 1986 - in recognition of the increasing support which that company will give to the development of System Y. It must, however, be recognised that much of the main work to develop the next generation of L M Ericsson technology will inevitably be done in Sweden, and not in the UK.

38 Another option I have considered would be to seek BT's agreement to continuing to play an important role. I recognise that BT's immediate commercial interests may now tell against substantial involvement in basic long-term research. The company will, however, need to ensure that its staff continue to have a complete working knowledge of System X, and that they gain an understanding of the AXE 10 (and indeed of the AT & T/Phillips exchanges). A full knowledge of the basic properties of both the hardware and the software of all these systems - probably gained in "laboratory" conditions - will be needed to provide full maintenance support. In addition, continuing work will, no doubt, be required to ensure that the security and integrity of the BT network is maintained.

39 The option of requiring Thorn Ericsson to meet certain conditions relating to technology transfer and the option of putting the responsibility on BT both have disadvantages.

) Difficulty would be experienced in verifying conditions required to make the Thorn Ericsson transfer an effective reality, while BT's work at Martlesham might not be used in a way that promoted fair competition in the manufacturing industry, particularly given the uncertainties about BT's own intentions as regards manufacturing operations. The fundamental problem is that a continuing mainstream research involvement has a very high cost and requires scarce resources such that it may not be feasible (or may not happen) in an industry with competition among several firms which, because of the competition, have relatively small scale. One way of resolving this problem might be to establish a UK research organisation which would be given the objective of maintaining a competence in modern switching technology, which would be financed by firms in the industry, and which would have the obligation of making its know-how available to UK firms on an even-handed basis. Similar arrangements have been made in other industries. However, such a project would involve significant difficulties and I cannot at present fully assess its practicability. I intend to study the idea further and publish my conclusions in due course.

Conclusion

40 In my view, BT's action in looking to non-System X suppliers for a second digital switch, manufactured in the UK, in effect to enable BT to secure the modernisation of its network to meet competitive pressures and user requirements, need not destroy the basis for the success of System X. In fact it could have a

) beneficial effect if it helps to induce further improvements in the development, manufacture and marketing of System X to assist it to gain a significant volume of overseas business.

41 I recommend that BT should not expand significantly its orders for System Y exchanges above the level envisaged for 1987-8 for three years unless the System X manufacturers suffer a major failure on cost or delivery; furthermore no increase to the System Y orders should be made without full competitive tendering. If, eventually, BT did decide to increase its orders for System Y, it would need to have increasing regard to measures to offset some of the potential disadvantages to the UK and to BT itself that I have identified above as likely to arise from reliance on a system developed outside the UK. In particular, it would be reasonable to expect BT to devote significant attention and resources to:

- (i) increasing the UK content of System Y to the highest possible level, with due regard to the employment effects of the purchase of components in the same or similar areas to those that would be affected by any run down in production of System X and its components;
- (ii) maximising the degree of technology transfer to the UK, with particular reference to systems and software design;

-)
- (iii) ensuring that the operational security of the UK network is safeguarded by the availability of staff located in the UK who are fully trained to deal with any conceivable eventuality arising from malfunctioning of systems not developed in the UK;

 - (iv) actively supporting the continued existence in the UK of R & D teams with the capability of handling the new systems development needs of the UK manufacturers; and

 - (v) continuing to give strong support to the System X export effort.

42 In preparing my analysis of the findings of my investigation, I have considered whether or not any of my other functions under the Telecommunications Act 1984 need to be exercised - apart from the giving of advice of which this report contains a good deal. My function of licence enforcement is not relevant because BT has not broken a licence condition. Section 50 of the Act gives me concurrent responsibilities with the Director-General of Fair Trading in exercising certain functions under the Fair Trading Act 1973 and the Competition Act 1980. I might need to exercise those functions if BT seemed to be pursuing a course of conduct, in their purchasing policy, which was likely to distort the effectiveness of competition in the industry. The present level of orders for System Y does not seem to have that effect, because it is not likely to be critical to

the continued production of System X. However, I shall keep BT's future buying policy for digital exchanges under careful review in the light of the competition legislation, mindful of the transitional difficulties of firms in adapting to the new environment in the industry.

43 I have also considered whether or not my duties under the 1984 Act call for the making of a reference to the Monopolies and Mergers Commission, seeking its report on proposals to amend BT's Licence in a manner that would deal with some of the problems discovered by this investigation:

(i) My primary duty is to secure the provision of such telecommunication services as satisfy all reasonable demands and to secure that any provider of those services is able to finance their provision; BT's intention, in placing the System Y order, has been to introduce competitive pressures on price and delivery, and gain additional security of supply to improve its ability to satisfy its customers' demands and to finance its services. I cannot see any basis for action under this duty. BT may or may not achieve its aim but its intention seems appropriate and the course it has chosen seems reasonable.

(ii) I must promote the interests of consumers in respect of the price, quality and variety of telecommunication services provided; the arguments seem to be the same as under (i) above.

-)
- (iii) I must maintain and promote effective competition between persons in the telecommunications industry in the UK; the System Y order is intended to have the effect of increasing competition among suppliers to BT. Admittedly the competition is imperfect, even artificial; but it may well be effective in providing incentives in the industry. If the effect of the introduction of System Y was to damage the System X manufacturers irremediably, the result might be to reduce competition in the long-term; but I do not see that result as likely in present circumstances.
- (iv) I must promote efficiency and economy in the industry; the System Y order will increase the average cost per line of the System X manufacturers but will put them under greater pressure to achieve economies. BT expect it to contribute to the efficiency and economy of its network operations.
- (v) I must promote research and development in the industry; the System Y order increases the difficulties of maintaining an independent UK switching technology - by fragmenting the market out of which R & D costs must be met - but it does not make the position hopeless. I believe that consideration should be given to the establishment of an independent research organisation as a means of strengthening the UK research effort.

(vi) I must encourage major users of telecommunications services to locate in the UK; the System Y order, if BT's intention is met of promoting competition to assist the modernisation of its network, is likely to assist this aim.

(vii) I must enable the producers of telecommunications apparatus in the UK to compete effectively both in and outside the UK; System Y will be produced in the UK and the UK content of resources used for manufacturing will probably be of the same order as that of System X; admittedly System Y is not likely to yield significant exports from the UK and BT's order for System Y may increase the difficulty in exporting System X - because of its impact on average cost per line; however the introduction of System Y may help the export of System X by sharpening the performance of its manufacturers through competitive pressures.

This analysis, none of which implies criticism of the quality of System X, leads me to conclude that the introduction of System Y is beneficial from the viewpoint of some of my duties under the Act but harmful or questionable from the viewpoint of others. Overall, I do not believe that a case exists for making a licence amendment reference to the MMC on the basis of the initial order for System Y although I shall keep BT's future buying policy under review in case the position should change.

44 Another conclusion of this investigation is that the long-term health of the manufacturing of switching equipment in the UK can be enhanced by the export of System X or by collaborative arrangements with overseas companies or perhaps both. The export of System X is seriously impaired by the lack of effective competition in international markets. Consequently, government pressure to promote effective competition internationally should be a high priority and consideration should be given to various forms of government support for British exports of telecommunications apparatus as a transitional arrangement.

July 1985

Post + telecom:
Future of Post office



CC NO



NBPA

AS 25/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

Norman Tebbit

24 July 1985

POST OFFICE: TARIFFS AND TARGETS

Thank you for your letter of 22 July which records the outcome of our discussion earlier that day. Paragraph 3 of your letter states that the extent of the tariff reduction will depend on the position at the end of the financial year. As I explained when we spoke, you will need to lay the ground carefully so that if the Post Office is unable to extend the period of the reduction this is also shown as a purely commercial decision which rests squarely with the management and employees.

I am grateful to you for your undertaking to reduce the Post Office's IFR bids to at least baseline.

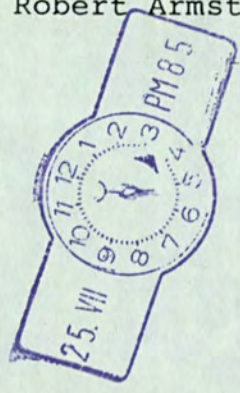
I should also confirm that following our discussion I am now prepared to agree to the financial and efficiency targets for 1985-86 which Geoffrey Pattie recommended in his letter to me of 25 June.

Geoffrey Pattie also wrote to the Chancellor on 24 June about the performance-related bonus scheme for Post Office Board members. I have confirmed with the Chancellor that, now we have agreed targets, he is broadly content with Geoffrey's proposals for 1985-86 although we consider it premature now to be setting a bonus scale for the Managing Director/Giro Bank. We suggest that we come back to the bonus arrangements for this post when a salary for the recruit is settled. Our agreement to Geoffrey's proposals is also on the understanding that the bonus element related to quality of service targets only becomes payable if both the 1st and 2nd Class mail targets are exceeded consistently throughout the 6-monthly periods.

Rost + Telecomm ²⁵ Future Pt 9

RESTRICTED

I am copying this letter to the Prime Minister, E(NI) and Sir Robert Armstrong.



*Yours truly
Peter Rees*

PETER REES

SECRET



NBSM

AT 12
2417
CCND

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

J F Mogg Esq
Private Secretary to
The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
LONDON
SW1H 0ET

23 July 1985


Dear John,

NATIONAL GIROBANK

Your Secretary of State's letter of 29 May to the Chancellor referred to the need to obtain a contracting-out certificate from the Occupational Pensions Board for a National Girobank Pension Fund and asked my Secretary of State to take informal soundings to see whether this could be done quickly. I am sorry for the delay in replying.

I understand that there is a requirement for three months' notice to be given to employees affected by a proposal to establish a contracted-out pension fund. The Board have discretion to shorten this provided there are no objections (for example from the Trades Unions) but in view of what you say about the likely Trade Union attitudes that may not be possible in this case. Subject to this proviso, and assuming the documentation is correctly prepared and the Board are consulted at an early stage about the requirements of the scheme (which can be done in confidence), it should be possible to obtain a certificate quite quickly. A certificate can also be issued with retrospective effect once all the requirements are satisfied.

I am copying this letter to Mark Addison (No 10), to the Private Secretaries to members of E(NI) and to the Solicitor-General, and to Richard Hatfield (Cabinet Office).



A Laurance

A Laurance
Private Secretary

SECRET

Post & Use: Future P29



Prime Minister (2)

The Post Office Corporate Plan is now being discussed at an E(NI) meeting under the Chancellor's chairmanship. Nevertheless you might like to see the issues being debated.

PRIME MINISTER

AT 23/7

23 July 1985

THE POST OFFICE

The Post Office (PO) is moving towards the establishment of three separate businesses - Mails (ie post), Counters (ie post offices) and Girobank. Within Mails, DTI are rightly pressing for further disaggregation. Hopefully, some results from this should be available next year when it should also be possible to see the effect of the new PO productivity deal. Given a fair wind and some political will, Girobank could also be sold before then. The E(NI) this year should therefore concentrate on Counters.

Counters comprises 1,500 crown offices, 8,500 sub-post offices and 11,000 rural post offices - six times more outlets than the largest of the banks (National Westminster). On current overhead allocations the crown offices cost 20% more per transaction than (the generally profitable) sub-post offices whilst 85% of the rural post offices lose money for the PO. The DHSS accounts for one-third of all Counter revenue, Mails for 21% and Girobank for 16%.

Crown Offices

The 1,500 crown offices are wholly run by the PO and employ some 10,000 staff. DTI want to transfer all bar a handful of these to the private sector. Sale of the properties should raise at least £100m and potentially a further 3,000 support staff could be saved. The unions won't like it, but it seems a sensible and overdue measure.

Urban Sub-Post Offices and Automation

The PO are in the middle of closing 1,000 urban sub-post offices but still need to close more for long term

viability, (there is no shortage of volunteers). The major threat is the computer driven financial services explosion from building societies and the like. If the counter service is to remain competitive then it must also automate and fight for this same business. The plan is to spend £250m introducing terminals to virtually all of the urban offices (but not the rural ones), starting in the Thames Valley in 1987. The automation must not just meet PO needs but also cater for potential clients such as insurance companies and building societies. Norman Tebbit is not yet fully satisfied with the detail of their plan but this must be the right strategy.

The Sub-Postmasters' Contract

The PO currently run sub-post offices on the basis of a 1908 agreement whereby sub-postmasters, although paid principally on the basis of turnover, are treated as quasi employees of the PO. The PO want to move to a purely customer/supplier relationship, preferably without any minimum payment. Provided the PO also remove all restrictions, not just on opening hours, but also on the ability to deal in competitive areas, (eg take on any building society agency) - then this will foster entrepreneurs and is to be commended.

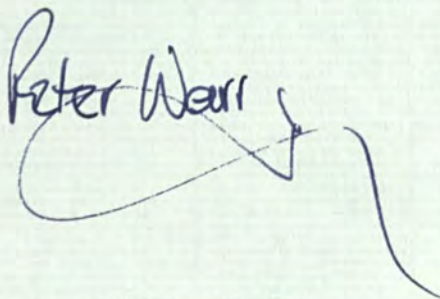
The Rural Network

The rural network currently costs the PO £40m pa. Whilst there is only a thin economic and moral case for supporting village life in this way, it would be anomalous to single out the PO when rural telephones, electricity, rail etc are all subsidised. Nor would it be good politics. Any change will be potentially explosive and unless it is saleable to the rural lobby it may be better not to tamper.

DTI would like to remove the cross subsidy whereby the DHSS, (and other customers), are effectively charged the same price for paying benefits in the town as the country. If town prices more accurately reflected costs then the DHSS would be given the right economic message, and if it were still cheaper to persuade people to open bank accounts than use the Post office then so be it.

In the country they would like the DHSS to pay a flat fee almost independent of the volume of transactions. In effect a straight subsidy from the DHSS for keeping post offices open. This is unfair on the DHSS - if the DHSS cannot persuade enough people to accept payment by cheque then it might well be cheaper to have a travelling payments van, rather like the travelling library.

Nor does it give the right message to the sub-postmaster who would have little incentive to improve his service. If rural POs are to be subsidised we would prefer it be a flat sum (paid by the PO) plus a higher transaction fee paid by the customer (eg DHSS). The subsidy would need to be set separately for each post office such that initially total remuneration remained unchanged. This would provide incentive and give the right economic message. If post offices then closed it would be the owner's decision, not the Government's.

A handwritten signature in blue ink that reads "Peter Warry". The signature is fluid and includes a long, sweeping underline that extends to the right.

PETER WARRY



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

22 July 1985

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1A 0AA

Copies to:

PS/Mr Pattie (ac)
PS/Lord Lucas
Sir Brian Hayes
Mr Macdonald
Mr Leeming

D Nigel.

MANAGING DIRECTOR, NATIONAL GIROBANK

In your letter of 17 June you agreed that it was desirable to appoint a full-time Managing Director for National Girobank. I now wish to propose a specific candidate.

2 The man I have in mind is Malcolm Williamson, currently Regional General Manager (London) with Barclays Bank. He was Sir Ronald Dearing's recommendation following advice from management search consultants.

3 Geoffrey Pattie met Mr Williamson and the second-choice candidate, Mr Samengo-Turner, last week and endorsed Sir Ronald's choice. I attach the career records and the search consultant's appraisal of both candidates. We believe that Mr Williamson's clarity of thought and expression, linked to his wide range of experience in retail banking, make him an attractive potential Girobank Managing Director. During his discussion with Geoffrey Pattie he made it clear that he strongly favoured the early privatisation of the bank.

4 Sir Ronald Dearing has also solicited the views of the Deputy Governor of the Bank of England. While the latter did not feel it appropriate for someone in the Bank to participate in the selection process he did confirm that the Bank would have no objection to either of the candidates.

5 I wish to tell Sir Ronald that I propose to invite Mr Williamson to become a Board Member of the Post Office and Managing Director of the Girobank. But first I need to obtain your approval to an appropriate salary level - which I judge to be (up to)

JF5AAK



£75,000 a year. I believe that this salary level is essential. Mr Williamson already earns £55,000 (plus bank bonus scheme, non-contributory pension, and low interest mortgage). He could reasonably expect further promotion within Barclays; and will be looking for some financial recompense for the greater risk inherent in the Girobank post. I am in no doubt that a salary of around £75,000 is not out of line with market requirements. Mr Samengo-Turner made it clear last week that he would require a salary of £95,000/£100,000 if he were to be attracted by the position; the Post Office's executive search consultants have consistently stressed the need to pay a salary of around £80,000 if the right candidate were to fill the post; and the Bank of England agrees with this opinion. Such a salary would of course be much higher than Sir Ronald Dearing's own salary of £63,000 (which we have proposed raising to £69,000): however, he would accept this outcome and would not expect the salary to set any kind of precedent for the next review of his own salary or those of other Board members.

6 In my view, it is very much in our interest to see that the Girobank is effectively managed so that the Government reaps the full advantage of privatisation. For this we have to be prepared to pay the market price salary. Consequently I hope you can agree that the Post Office should be authorised to open negotiations with Mr Williamson within a salary ceiling of £75,000.

7 I am copying this letter to the Prime Minister.

NORMAN TEBBIT

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>1599</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Annex A to Tebbitt to Lawson dated 22 July 1985</i>	
CLOSED FOR <i>55</i> YEARS UNDER FOI EXEMPTION	<i>3/4/2014</i> <i>S. Gray</i>
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	



DEPARTMENT OF TRADE AND INDUSTRY
 1-19 VICTORIA STREET
 LONDON SW1H 0ET 5422
 TELEPHONE DIRECT LINE 01-215
 SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

22 July 1985

The Rt Hon Peter Rees MP
 Chief Secretary to the Treasury
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

Prime Minister⁽²⁾

To note that Mr Tebbit
 and Mr Rees have agreed
 that the second class stamp
 can be reduced by 1p provided
 the excess bid is eliminated

AT 22/7

D Peter

POSTAL TARIFFS

We discussed this question, following my letter to you of 19 July, and, as agreed, I am writing to set out how I propose to proceed. Given the urgency for the Post Office now to print their Christmas stamps, and the desirability for us to announce the PO targets for 1985/86, I regret that there is not time for further formal consultation with E(NI) colleagues.

2 I will now tell Sir Ronald Dearing that he can announce tomorrow, as he has proposed, that the price of second-class post will be reduced by one penny from 4 November to the end of this financial year, i.e. end-March. This will be presented as a business proposition by the Post Office, and put in the context of an incentive to consumers at the time of the Corporation's 350th Anniversary celebration.

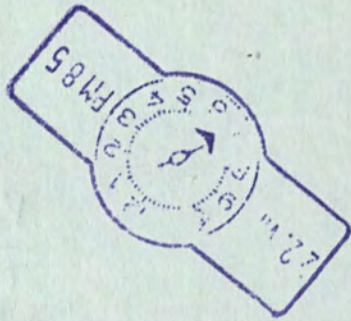
3 I shall, at the same time, make clear to the Post Office that I have undertaken to get their EFL's for future years back to baseline. As to the extent of the tariff reduction, the position after the end of the financial year will depend on the business environment, volume performance, efficiency improvements and the PO's financial obligations.

4 I am copying this letter to the Prime Minister, E(NI) colleagues and to Sir Robert Armstrong.

NORMAN TEBBIT

JH1CQZ

Post + tras Pt 9
" future





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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

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5422

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Secretary of State for Trade and Industry

19 July 1985

NDPM

BT 23/7

The Rt Hon Peter Rees MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

D. Peter,

POSTAL TARIFFS

I have seen a copy of your letter of 18 July to Geoffrey Pattie.

2 I note that you have some difficulties with Geoffrey's proposal, as put forward in his letter of 25 June. I have to say that I should have difficulties, if I were to have to say to the Post Office that they should not implement a proposal which would be popular, make a modest contribution to holding down the costs of industry and others, and would be well within their financial commitments. The refusal of Government to provide this benefit to consumers, which would be sure to become known, would be, in my view, a lamentable misjudgement.

3 As you know from our recent discussions in E(NI) on the IFR bids, and from my very recently circulated papers to E(NI) on Post Office objectives and Corporate Plan, there are unpalatable decisions which we shouldoblige the Post Office to take, in order to bring it to fuller economic efficiency. I will, in that context, seek to bring the Post Office back to their EFL baseline in 1986/87 and for later years. I hope that you will find this assurance helpful.

4 But I could not accept your proposed increase in the profit target and EFL adjustment for 1985-86. It would run counter to the review of the profit target which we are conducting. It would be very damaging to our relations with the PO Board, and to their still-fragile, but improving, industrial relations position. I must press you for your every early agreement to Geoffrey's proposal, in view of the urgency of this if the timetable for the Christmas issue is to be met.

6 I am copying this letter to the Prime Minister, members of E(NI), and to Sir Robert Armstrong.

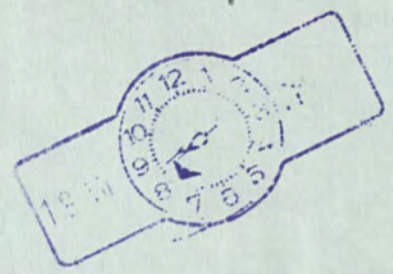
Let's be popular for a change!

[Handwritten signature]

NORMAN TEBBIT

JF5AAC

Future of post Office: Post + Telecoms
pt9





NBPM

RT 19/7

CCNO

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
 Minister of State for Industry and Information Technology
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1E 6RB

John Geoffrey

18 July 1985

POST OFFICE: TARGETS AND TARIFFS

Thank you for your letter of 25 June about Post Office targets and for your letter of 8 July about a proposal to reduce the second class mail tariff by 1p from November.

I have some difficulties with this tariff proposal. I am not persuaded that it is now an appropriate time to consider a tariff reduction nor that there is a sound financial and economic case in support of the particular reduction that is being proposed. As you mentioned in your letter of 25 June our officials are reviewing the formulation and the level of the Post Office's profit targets from 1986-87. You argued in your letter of 30 April to me that the outcome to this review could have significant implications for tariffs. It is surely premature now to be considering a one-off and possibly very temporary adjustment to the second class tariff before our officials have reported to us and before we are in a position to form a sensible judgement on how their conclusions impinge on tariffs and on the possibilities for improving service standards rather than holding tariffs down.

Your argument in support of this tariff proposal is that it is necessary to ensure compatibility with the Post Office's performance and financial targets. I have yet finally to agree to the target proposals you make in your letter of 25 June and they are not yet in force. If the concern is about consistency then for the reasons I have mentioned I would prefer to adjust the proposed profit target and the 1985-86 EFL to take account of the extra internal resources which you are now expecting to be generated than to see an adhoc tariff adjustment which may be only very temporary. Indeed I recall my discussions with Norman Tebbit during last year's IFR when I pressed

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him to accept a more demanding EFL and profit target for the Post Office in order to assist in meeting our public expenditure objectives. I only accepted the current EFL because of Norman's arguments that my proposals were too demanding and would result in very serious industrial relations problems. It now seems that my original proposals *for* that IFR were about right.

My officials have calculated that the proposed-profit targets for 1985-86 should be adjusted from 4.5 per cent on turnover to 5.3 per cent to reflect the latest view of the Post Office's financial performance and the EFL adjusted from £(70) million to £(90) million. I hope you will be able to accept these proposals so that the Post Office's targets for this year and the revised EFL can be announced without further delay.

I am copying this letter to the Prime Minister, E(NI), and Sir Robert Armstrong.

Norman *PR*

PETER REES



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

8 July 1985

Dear Peter

POSTAL TARIFFS

Sir Ronald Dearing wrote to me a few weeks ago with tariff proposals for 1985/86 comprising increases for the parcels business and selective increases in international prices from September 1985 that together would have raised additional revenue of £15m in 1985/86. He proposed holding the current inland tariff for the rest of 1985/86.

In considering these proposals, I was conscious that the Government have no statutory power to direct the Post Office on the general level of prices. Our locus is confined to ensuring that the tariff proposals are compatible with the financial targets which we set. The objective is to set tariffs at a level that would mean that if the Post Office met its real unit cost objective precisely it would also meet its profit target precisely. Sir Ronald's original proposals failed this test and he has now submitted revised proposals which I am able to endorse, on the basis of the proposals for 1985/86 financial objective set out in my letter to you of 25 June.

The revised proposals are for a package to be introduced on 4 November comprising a 1p reduction in the price of second-class mail; and increases in parcels and international prices designed to generate additional revenue of £15m in 1985/86. Your officials, who have been kept informed of progress on the Post Office's proposals, have full details.

JY1/JY1ABS



I regard this as an excellent outcome and it is pleasing that the customer will see some positive benefit from the outstanding Post Office performance in 1984/85. The workforce has also had its share of the benefit through the bonus payments associated with this year's pay award. And I am sure that you will be pleased to learn that the Government has also benefited as I understand that the EFL outturn for 1984/85 was close to minus £100m against a target of minus £60m.

Sir Ronald wishes to announce his proposals on 16 July and I should therefore be grateful for your confirmation that you are content with my proposals on 1985/86 financial objectives, and that you are content that the tariff proposals are consistent with those targets, in time for me to respond to Sir Ronald by the end of this week.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'John Major'.

A handwritten signature in cursive script, appearing to read 'Geoffrey Pattie', with a horizontal line underneath.

GEOFFREY PATTIE

M12/M12AES



11

N/A

AT

18/6

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

17 June 1985

The Rt Hon Norman Tebbit MP
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1 Victoria Street
 LONDON SW1

A handwritten signature in black ink, appearing to read 'Norman Tebbit'.

NATIONAL GIROBANK

Thank you for your letter of 29 May. I agree that we should continue to aim for early privatisation of Girobank - there is nothing whatever to be gained by delay - and that sale to an individual trade purchaser (or just possibly to a consortium of trade purchasers) is the only practicable route. I see some problems in trying to make an exploratory approach to potential purchasers, along the lines you suggest, without undermining our own negotiating position. But I am content for you to proceed in that way if you consider it essential.

It goes against the grain to appoint merchant bank advisers without any competition, particularly given the attention that Parliament and the press, not to mention the PAC, pay to the costs to the taxpayer of City advice on privatisations. I fully appreciate your concern to preserve confidentiality in this case but I would have thought that you could interview two or three banks without serious risk. In any event I should be grateful if you would consult me fully before any merchant bank is actually appointed.

I agree that we now need to appoint a full-time Managing Director for Girobank and I know you will want to ensure the person selected is qualified to lead Girobank through to privatisation and wholeheartedly in favour of the route you have identified. I should be grateful if you would let me know when you have chosen your shortlist. I note what Geoffrey has said about the salary level likely to be needed to secure a suitable appointment. But the sums he has proposed would create real problems for us in relation to salaries elsewhere and I therefore think a strong case will have to be made before we can contemplate sums of this order. Perhaps we could discuss this separately in the light of the candidates you select.

Finally, officials here have taken some preliminary soundings concerning clearance through the Superannuation Fund Office and I am glad to say that we do not expect any difficulties in arranging an accelerated procedure.

I am copying this letter to the Prime Minister, to the other members of E(NI), to Norman Fowler, Patrick Mayhew and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

BST + TCS Pt 9

R 18/6





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

6 June 1985

Dear Secretary of State

PRIVATISATION OF NATIONAL GIROBANK

I agree with you that the central question is whether the local branch of the NCU can be prevented from frustrating the privatisation of NGB. Politically, this problem has in part to be seen in the more general political context of Merseyside - not only the actions of the Militant Tendency now in control of Liverpool City Council but also of further political problems that could arise in the context of tough precept control between the Government and the Passenger Transport Authority that will take over the public transport responsibilities of the Merseyside County Council. I see some danger that an early confrontation with the Bootle work-force could escalate the political difficulties of the Government in Merseyside, reacting back unfavourably on your plans. You have probably already considered this, and concluded that there would be no advantages in delaying your proposed action. But given the danger of leaks, I felt I should specifically bring this danger to your attention.

I am copying this letter to the Prime Minister, Norman Fowler, Sir Patrick Mayhew, Members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

P. Jenkin

PATRICK JENKIN

*Approved by the Secretary of State
and signed in his absence.*

JUN 1985

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B/F Sex marks hence
for a progress report

CC JR

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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422

SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

6 June 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,
MERCURY

.. I attach a note, as requested in your letter of 16 May, setting out the significant opportunities likely to arise over the next 12 months for Mercury to compete for CCTA business in the telecommunications field.

2 The note has been agreed between officials here and at the CCTA who will ensure that Mercury is kept fully aware of the opportunities that will be on offer and given every chance to compete for this business on an even-handed basis.

3 Over and above the CCTA's own requirements for telecommunication services, certain other Departments, notably the MoD but also the Home Office and the Scottish Office, have significant requirements for telecommunication services of their own. These requirements, too, should throw up potential business opportunities which Mercury may be able to service. At least Mercury needs to be kept aware of these opportunities to do business and the Departments likewise need to keep in the forefront of their minds Mercury's potential, as well as BT's, to take on the business. Because of the geographical constraints of Mercury's present network, any Scottish ordering opportunities are unlikely to be realisable by Mercury in the near future but officials here are pursuing with the MoD and the Home Office how these opportunities which the requirements of those Departments may throw up can best be handled.

4 A copy of this letter and its attachment goes to Rachel Lomax at the Treasury.

Yours ever,
Andrew Lansley

ANDREW D LANSLEY
Private Secretary

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MERCURY : CCTA PURCHASES

1 The CCTA's requirements for telecommunications equipment and services amount to a £15m business per annum.

2 Much of this is equipment business which Mercury is not set up to nor interested in handling. On the telecommunication services side, as a positive act of policy, the CCTA ensures that Mercury is made aware of all the opportunities for business that arise and is given a full and fair opportunity to compete for that business. Over the last 12 months there have been 17 invitations to compete for main GTN services of which 16 came to fruition. Mercury was invited to compete for all of these though in 11 cases, due to the current geographical limitations of its network, Mercury chose not to take up the invitation. Mercury was the successful supplier in 3 of the remaining 5 cases.

3 Over the next 12 months the CCTA foresees two main areas where Mercury has good prospects of competing successfully, on an even-handed basis, for CCTA business. These are:

(a) The replacement of the Federal telephone network available to Ministers and high-level civil servants. A decision whether or not to proceed with this will be taken in or around August in the light of a current user survey. Should the replacement go ahead this will be business worth £0.5m-0.6m, the service part of which, in CCTA's view, Mercury should be well placed to compete for with its London network of optical fibres.

/Cont'd..

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(b) As last year, further GTN rented trunk routes will also come up for competition under the modernisation programme. There will be some 5 or 6 of these at a total annual rental of around £0.5m. Three of them are so located, geographically, as to make it unlikely that Mercury will show an interest. On the other 3, however, Mercury should have an interest and equal chances of competing for the business.

4 CCTA have offered to involve the DTI in the consideration of these cases as they come forward through the setting up of an advisory Evaluation Panel on which the DTI, as well as the CCTA itself, will be represented.

Part 9 Tel. : Future Pt 9.

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(b) As last year, further LTTA rented trunk routes will also come up for competition under the modernization program. There will be some 5 or 6 of these at a total annual rental of about \$0.5m. Three of them are so located, geographically, as to make it unlikely that history will show an interest. On the other 3, however, history should have an interest and equal chances of competing for the business.

CCTA have offered to involve the DTT in the consideration of these cases as they come forward through the setting up of an Advisory Evaluation Panel in which the DTT, as well as the CCTA itself, will be represented.

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W. B. M. 185 6/6 CC No.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Secretary of State for Trade and Industry

S June 1985

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COMMERCIAL IN CONFIDENCE

Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London SW1A 2ER

D Nick.

Thank you for your letter of 21st May concerning BT's proposed acquisition of a controlling interest in Mitel.

I am very conscious of your interest in this matter and of course appreciate the importance of Mitel's Welsh operation. However, the competition aspects of this acquisition are particularly important and I am still awaiting the advice of Sir Gordon Borrie on whether or not a reference to the Monopolies and Mergers Commission should be made. I will naturally keep you informed of developments on this issue.

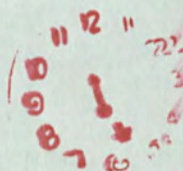
Copies of this letter go to the Prime Minister and to Willie Whitelaw.

Y. M.
Norman

NORMAN TEBBIT

Post + Telecoms: Future of the Post Office.
P.T 9.

5 JUN 1985



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Secretary of State for Trade and Industry

29 May 1985

FF to se

Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Per Mark
To note.

D Nigel

~~they do not~~
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PRIVATISATION OF NATIONAL GIROBANK (NGB)

As you know, I have been giving further consideration to the feasibility of privatising NGB. There are a number of difficulties associated with such a move but I have come to the conclusion that we should continue to regard NGB as a candidate for privatisation, probably in the second half of 1986/87, but that we should appoint a merchant bank to take confidential soundings of potential purchasers before we take a firm decision and announce our intention to privatise.

2 I attach a paper prepared by my officials which examines the issues and identifies potential problems. This concludes that, while problems do exist, none need be regarded as insurmountable. The central question is whether the local branch of the NCU, which is dominated by Militant Tendency, can be prevented from frustrating the privatisation of NGB. I believe that we can have a successful sale if we are careful in our handling of the situation, but that this industrial relations factor could have an impact on the way in which NGB is sold. It may be better, for example, to sell only a controlling interest initially, rather than 100% of the equity; and it may be necessary to allow some of the equity to be held by the workforce. This sort of approach may be necessary in any case to take NGB management and the Post Office board with us. The Solicitor-General has advised that, while I have existing statutory powers to direct the Post Office to sell all or part of the equity in a NGB subsidiary, it is probable that I do not have powers to specify the method, the purchaser or the price. In the light of this further consideration, I now intend to appoint a merchant bank to make confidential approaches to potential purchasers and to explore with them how far we could go in the direction of giving firm assurances to management, NGB and Counters staff - and sub-postmasters - without seriously damaging the prospects of sale.

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3 The attached paper identifies the establishment of a pension fund for NGB staff as critical to the timing of an eventual sale. Part of the process involves seeking clearance from the Superannuation Fund Office, which is within your sphere of influence, and the Occupational Pensions Board, which is the responsibility of Norman Fowler to whom I am copying this letter. I understand that there are precedents for seeking speedy clearance through these two bodies and I would be grateful if you and Norman could take confidential soundings to see whether that is likely to be possible in this case. I am anxious to minimise the time available (between a public announcement and an eventual sale) for opponents of privatisation to rally support for their views among the workforce.

4 Only when the merchant bank has reported and the position on the NGB Pension Fund is clear can we take a final decision. It is therefore important that confidentiality be maintained as far as possible before then. For this reason, albeit with reluctance, I hope that you will agree that the normal rules for appointing merchant bank advisers to the privatisation programme should be waived, and that an appointment can be made without a competition. This will also aid the timetable. I would also suggest that the review of the prospects for introducing private sector capital into Post Office activities and the review of the letter monopoly to which we have agreed should not be announced in advance of the NGB announcement. Indeed, there is much to be said for merging the two announcements.

5 Finally, there is one other major impediment to making progress on this issue, and this is within our control. I have seen your letter of 15 April to Geoffrey Pattie, but I hope that you will now be able to agree to the appointment of a Managing Director for NGB on the basis of the proposal set out in Geoffrey's letter of 18 March. The position has been exacerbated since then by the resignation of the NGB Finance Director, who has been appointed to the Board of Abbey Life.

6 We really must have a strong Managing Director of Girobank in place sometime before the announcement of our intention to privatise. He will be the key man in countering the activities of the opponents of privatisation within the NGB at Bootle and he needs to have been there for some time in order to have the credibility to discharge that responsibility.

7 I am copying this letter to the Prime Minister, Norman Fowler, Sir Patrick Mayhew, Members of E(NI) and to Sir Robert Armstrong.

Norman

NORMAN TEBBIT

JH2AQI

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PRIVATISATION OF NATIONAL GIROBANK (NGB)

Giro systems for the rapid transmission of money, usually administered from a single centre using the postal system, were first established in other Western European countries before the First World War. In Britain, the Radcliffe Committee concluded in 1959 that such a system (though not necessarily based on the Post Office) would be a welcome innovation. The clearing banks instituted a credit transfer or "Bank Giro" service in 1961 but it was not centrally computerised until 1972. In the meantime, the Post Office Giro was set up in 1968, offering three basic services - transfer, deposit and payment.

2. When the Post Office Giro was set up, less than a third of the adult population had a bank account. Table 1 shows how the picture has changed:

Table 1: Proportion of British Adult (16 and over) Population with Current Accounts

<u>1981</u>	<u>No. of People (m)</u>	<u>No. of Accounts</u>	<u>Percentage of adult population</u>
1981	24.7	19.9	59
1982	25.1	20.3	60
1983	26.2	20.0	63
1984	28.5	22.8	66

NGB has been taking a growing share of this market. In 1975, the number of NGB accounts was 2% of the total; in 1984 it was 5%. But in the last three years, NGB has been taking 15-20% of new accounts.

Table 2: NGB Personal Current Account Holders

1972	125,000
1975	450,000
1979	640,000
1980	820,000
1981	940,000
1982	1,080,000
1983	1,300,000
1984	1,520,000
1985 (est)	1,800,000
1990	2,600,000

3 After a financially shaky start, NGB recorded its first surplus in 1974/75 and has increased its profit ever since apart from 1980/81 and 1983/84:

Table 3: NGB Turnover and Profitability

Year	Turnover £M	Profit (Loss) £M	Profit on Mean Net Assets %
1968/69 (ie yr 1)	N/A	(1.7)	N/A
1969/70	N/A	(6.0)	N/A
1970/71	N/A	(6.0)	N/A
1979/80	112.5	11.2	40.6
1980/81	144.8	7.2	47.5
1981/82	177.0	12.2	29.4
1982/83	207.3	17.6	33.1
1983/84	227.3	15.5	25.3
1984/85 (est)	264.9	19.8	28.1
1985/86 (forecast)	297.2	25.3	31.6
1986/87 (forecast)	326.9	24.5	26.6
1987/88 (forecast)	367.3	35.7	33.3
1988/89 (forecast)	396.9	36.8	29.0
1989/90 (forecast)	427.9	36.2	24.8

Up to 1974/75, NGB accumulated net losses of £33.4M and in 1975 capital reconstruction wrote off half those losses and

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converted half of its remaining indebtedness into Public Dividend Capital. Table 4 summarises the subsequent position:

Table 4: NGB Capital Structure

	<u>1 April 1975</u> <u>(on reconstruction)</u>	<u>31 March 1979</u>	(£M) <u>3 April 1985</u> <u>(estimated)</u>
Long-term loans (NLF)	12.7	16.7	19.0
Public Dividend Capital	13.0	17.0	22.0
Accumulated Profit (Loss)	(16.7)	(10.3)	34.0
Net Capital	9.6	23.4	75.0

PRIVATISATION ISSUES

4. There is no reason of principle for retaining NGB in the public sector. The Giro payment system today is a well established part of the service offered by all private sector banks and a private sector NGB could complement this service as effectively as a public sector NGB.

Legal and Regulatory Position

5. NGB could be privatised without the need for legislation. However, the Secretary of State's powers are limited to directing the Post Office to incorporate NGB as a formal Companies Act company and subsequently to sell all or part of the equity. He may not, without the serious risk of successful legal challenge, specify the method of sale, the

purchaser or the sale price. Further, he cannot direct that the Post Office release the proceeds of the sale to the Exchequer. Thus, if new primary legislation is to be avoided, the cooperation of the Post Office Board is necessary.

6 It is thought probable that NGB would receive recognised bank status before privatisation but it remains a possibility that it could be privatised as a licensed deposit taker. As a licensed deposit taker, NGB would be unable to advertise itself as, or call itself, a bank and, subject to the method of sale and identity of the purchaser, the valuation could be lower. These issues cannot be resolved in advance of a decision on the method of sale and identification of the eventual owner.

NGB/Counters Interdependence

7 NGB differs from the clearing banks in neither owning nor operating retail outlets of its own. Yet, through Post Office Counters, it has access to the largest and most geographically extensive retail chain in the UK. NGB and Counters are heavily interdependent, and for the short to medium term at least it is essential for both that the relationship continues. There is a clear need for this to be put on a contractual basis.

8 A draft contract has now been produced following discussions between the NGB and the Post Office Counter Services Division. A copy is at Annex A. It should be seen as purely illustrative.

9 The draft contract contains the provision for NGB to have the exclusive use of the Counters network and for NGB to place a specified reducing proportion of its business with Counters for the first five years of the contract. This could make the agreement registrable once NGB ceased to be a part of the Post Office (although there is a slight technical legal doubt). Informal, off the record advice from OFT is

that, if it were registrable, they would see a reasonable chance of the Director-General making representation to the Secretary of State under section 21(2) of the Restrictive Trade Practices Act 1976 but that must obviously be treated as a very preliminary view. This would mean that, although the agreement would remain on the register, it would not be processed through the court. However, even in these circumstances, a purchaser would have to accept that purchasing NGB could still involve registration on vesting day.

10 This is largely academic, however, as our legal advisers take the view that the requirement that Counters deal exclusively with NGB is ultra vires the Post Office Act as amended by the BT Act. Their view is that Parliament has provided the Post Office with the power to provide "banking services and such other services by means of which money may be remitted (whether by means of money orders, postal orders, or otherwise) as it thinks fit". (Post Office Act 1969, section 7(i) as amended by BT Act 1981 section 58(1) (b)). By contracting exclusively with NGB it will be providing such banking services as a private sector NGB - not the Post Office - thinks fit.

11 The effect of this advice is that NGB cannot be sold with a contractual guarantee of exclusivity. The purchaser can have the comfort, however, of knowing that it would be unlikely that the Post Office would choose to provide banking services other than through NGB and as the Post Office does not have a duty to provide banking services, there is no obligation for it to do so. Even if, for some perverse reason, the Post Office did decide to reestablish a banking facility, it would take some time and much resource to do so. Government has powers in the area of the Post Office investment programme. The overall effect therefore is that the absence of contractual exclusivity is probably undesirable for a potential purchaser and may reduce the valuation, but it is not fatal.

12 It is still possible to offer NGB for sale with the contractual obligation to place a specified proportion of its business with Counters for the first five years. This is desirable for industrial relations reasons and for reassuring the sub-postmaster lobby. The present management of NGB would be opposed to this simply on the grounds of equity, but a purchaser may be less concerned. Initially at least, NGB will, of necessity be tied largely to Counters although NGB would want to develop some alternative outlets quickly to avoid the prospect of being totally dependent on industrial relations in Counters over which it would have no control. The removal from the contract of the clause giving NGB exclusive use of Counters could also, with some minor changes to clause 3 of the draft at Annex A, be operated without falling foul of the RTP legislation as there would no longer be two parties accepting restrictions.

13 From this further consideration of a draft NGB/Counters contract, it is clear that there is no fatal impediment to a privatisation in this area but it cannot be taken ^{further} at this stage. This will be a matter for negotiation with the eventual purchaser or for decision before flotation.

Competition Considerations

14 The position under the Restrictive Trade Practices Act is discussed in paragraph 9 above. Privatisation of NGB other than by a flotation would also raise the question of the mergers provisions of the Fair Trading Act 1973. Clearly, it will be necessary to avoid a sale to a purchaser where there were any grounds for seriously considering referring the acquisition to the MMC given the role of the Secretary of State in this matter. In practice, and given the MMC's comments on the proposed acquisition of the Royal Bank of Scotland, this is likely to preclude only the big 4 or 5 clearers. Finally, although OFT advise that there is unlikely to be a problem with European competition law, particularly if the long-term exclusivity provision is dropped, it would be sensible to have an informal word with

the Commission before an announcement were made.

Pensions

15 NGB staff belong to the Post Office Staff Superannuation Scheme which provides for index linking. They would no doubt seek assurances that they would be no worse off after privatisation, but index linking - at least for new employees - is unlikely to be acceptable to a private sector purchaser. One option that will be worth considering further would be a payment from the Post Office to the nascent NGB pension fund. This problem is unlikely to be insurmountable but, again, cannot be resolved until a decision has been taken on the method of sale and/or discussions have been held with the new owner.

16 The Post Office has produced a note on the mechanics of setting up a discrete NGB pension fund (copy at Annex B). It is this that is critical to the timing of a sale. An *actuarial* valuation of the Post Office fund is currently taking place to report the position at 1 April 1985 and a separate valuation of the position of NGB employees will be included in the actuary's report. This should be available in the Autumn of this year.

17. Work necessary to create a separate fund for NGB staff is continuing but will make only limited progress in advance of a public announcement of the Government's intentions on privatisation as it is necessary to consult the fund's staff and possibly the trustees (including union nominees) before substantial progress can be made. Once that step is taken, the main influences on timescale, referred to in paragraph 2 of Annex B, are the need to seek approval for tax purposes from the Superannuation Funds Office to give it exempt status and the Occupational Pensions Board for contracting-out purposes in particular. An earlier sale could be possible if Government gave assurances that there would be speedy passage through these two bodies. This would not be unprecedented and is something to be taken up with the Chancellor and the

Secretary of State for Social Services when Departmental Ministers have decided to proceed. It is likely that work on setting up the fund could be completed on a timescale that would allow privatisation 12-18 months after a public announcement.

Views of Management

18. Although the Post Office Board would prefer privatisation, if at all, of the entire Post Office and not merely the NGB business, senior NGB management is enthusiastic about the principle. However, this view is dependent on the sale leaving NGB as a distinct entity with the presumption that their personal positions would not be adversely affected.

19. The Managing Director of NGB retired at the end of February and has not been replaced. Treasury are arguing that an appointment must await a decision on privatisation. The absence of an MD means that a privatisation could be later than if the appointment had been made on the timescale favoured by the Post Office Chairman and the Department. Nevertheless, if Ministers do decide to proceed, it will be necessary to move quickly to get the right person appointed. This is even more important since the Director for Finance and Investment resigned in early May.

Reaction of the Work Force and Unions

20. It is recognised that privatisation will be opposed by the NGB unions, the National Communications Union - clerical branch (formally CPSA) and SCPS, and by the UCW whose members include Counters staff as well as postmen. Sub-postmasters are also an effective lobby and can be expected to be concerned at any potential loss of business. NGB represents a higher proportion of Crown office business than is the case for sub-post offices but sub-post-masters will still need reassurance.

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21. NGB is wholly dependent on UCW members at Counters for its retail outlets in Crown offices, and also relies heavily on the post. Moreover, NGB is mainly concentrated on its computerised processing operation at Bootle where even an overtime ban could make NGB cease operating as a bank within a week or two. There is a small but highly influential Militant Tendency group at Bootle. However, it is interesting to note that industrial action over pay and productivity last year looked very serious for a time but, although the work-force went to the brink of doing serious damage to NGB, they chose to retreat to a realistic position when faced with firm management. Nevertheless, industrial action on anything more than a fairly token scale could rapidly lead to the loss of important NGB customers (eg some of the big retail chains) thereby seriously damaging its profitability and greatly reducing its attractiveness to a potential purchaser.

22. On the other hand, the prospect of serious industrial action has to be faced before NGB can be privatised. In the longer term, it would obviously be sensible to break down the concentration of work at Bootle and NGB have already started this by opening up regional centres - 5 out of a total of 7 are already in operation as is one of 4 or 5 cheque encoding centres. This is part of ongoing NGB strategy to seek to diminish the concentration on Bootle and hence the power of the union there. However, in the short term a buyer would expect the work force to accept privatisation and it will be necessary to establish the unions' position and, if necessary, challenge their opposition.

23. The reaction of the work-force and unions, and particularly the foreseeable desire of Militant Tendency at Bootle to embarrass the Government on this issue, present the only real risk to a successful privatisation. There are other problems but these are essentially technical and are surmountable. There can be no guarantees of success and privatisation of NGB will be something of a gamble. But acceptance of the reality of the potential influence of

Militant Tendency conditions a number of decisions in connection with the privatisation that have the effect of reducing the odds to acceptable proportions.

24. The clearest risk is that if the privatisation is arranged in such a way that its opponents are able to convince the work-force that they will face early redundancy as a result of asset stripping or rationalisation, the work-force will be persuaded that they have nothing to lose from opposing privatisation even to the point of destroying NGB. This is an equally important consideration in carrying management forward with the policy. Such an obvious own goal is avoidable but it restricts some options. There is merit in leaving a share of the equity (at least 25% with the Post Office initially. Work-force shares are also an option although they will be of limited value if NGB is not to be a listed company. The conundrum is that the more that is done in this way, the less attractive is NGB to a potential purchaser. It is also important to manage the timing in a way to minimise the opportunity for stirring up opposition.

Method of Sale

25. NGB could be sold in a number of ways including:

- (a) By public offer for sale at a fixed price or tender;
- (b) By sale to a single purchaser or consortium by fixed price, tender or negotiated price;
- (c) by a hybrid arrangement with a sale of a majority shareholding to a single purchaser or consortium, a minority shareholding to management and staff, and with the Government indirectly via the Post Office retaining a stake that would ultimately be disposed of.

26. On the basis of the argument at paragraphs 20-24 above, the best tactic would appear to be to go as far as possible

in the first announcement of a decision to privatise Girobank to provide reassurance that the interests of staff would be safeguarded and that business would not be diverted away from sub-offices. Sale of NGB as an entity to a single purchaser would limit the extent to which really firm assurances about the future could be given. Until we had identified a potential purchaser, we could not be certain how far he would be willing to go in, for example, preserving NGB employees' existing, index-linked, pension rights or committing himself to the use of sub-offices for the indefinite future.

27. The case for sale to a single purchaser is otherwise a strong one. It is doubtful whether NGB is yet strong enough to stand on its own in the increasingly competitive financial services market. It will almost certainly need to raise additional capital for investment over the next few years. Neither a public flotation nor a management buy-out could provide the added solidity and stability which it needs. Carefully presented, sale to an existing institution of some size interested in developing into the retail banking market could be made to appear as clearly in the interests of NGB and its employees and as significantly strengthening competition in financial services. Other alternatives might lend themselves to representation by opponents of privatisation as privatisation for privatisations sake.

Potential Purchasers

28. Depending on price and terms (and the outcome on the issues discussed above) the potential purchasers might include:

- (a) smaller/medium UK bank wishing to gain access to the clearing system and/or establish a retail banking customer base (Standard and Chartered, Grindlays) or to acquire access to a branch system via the Counters network (eg Royal Bank of Scotland);

- (b) a financial services company or insurance group wishing to expand or diversify;
- (c) a non-financial services company eg. retailers or mail order companies.

29. EEC rules mean that it is generally not possible to prohibit foreign takeovers as such. Sale to a single purchaser, as opposed to a flotation, offers more ready Government control over ownership. If the sale were by negotiated price it would make excluding unwelcome bids simpler and more easily defended. It would seem that there are ways of ensuring that potential purchasers who are unwelcome to the Government are not successful.

Valuation

30. Making allowance for sale at either a discount or a premium (depending on how NGB is sold and to whom) suggests a valuation of NGB in the range of £50 to £120M but more probably within the range of £75 to £100M.

Timing

31. As explained in paragraph 17, a privatisation is possible some 12-18 months after an announcement of the Government's intentions. For the reasons explained below, that would suggest a sale in the second half of 1986/87.

Conclusions and Recommendations

32. It remains the view of officials that privatisation of NGB is feasible. There are a number of obstacles to be overcome but the central issue remains the position of the work-force and the unions and particularly the need to cope with an influential Militant Tendency presence at the main NGB processing centre at Bootle. In our view, this is not insurmountable but does require careful handling.

33. A public offer for sale is unattractive in this case and the preferred course would be the sale of a majority of the equity to an individual purchaser, with the Post Office retaining 25% and the balance available for distribution to the work force. The Articles of Association for NGB plc would be written to ensure that the Post Office's 25% constituted a guarantee that NGB would retain its separate identity. But the Government would retain the power, through existing legislation, to require the Post Office to dispose of its holding at a later date (although legal advice is that new legislation would be required to enable the Government to direct that that equity be sold to the initial purchaser or to specify the valuation of the holding). This approach also provides greatest safety against an unwelcome bidder.

34. This paper has explored a number of technical issues concerned with a sale, that the Secretary of State commissioned when he considered this matter last year. The conclusion on most of these issues has been that there is no insurmountable problem but that a decision must await the identification and the views of a potential purchaser. If Ministers accept that NGB remains a firm candidate for privatisation, the next step would be the appointment of a merchant bank to make confidential approaches to potential purchasers and to explore with them how far the Government could go in the direction of giving firm assurances to management, NGB and Counters staff and sub-postmasters without seriously damaging the prospect of a sale.

35. It is also necessary to sound out the Chancellor and the Secretary of State for Social Services on the prospects for speedy passage through the Superannuation Funds Office and the Occupational Pensions Board for the new NGB pension fund to minimise the time available for opponents of privatisation to rally support for their views among the workforce.

36. Only when the merchant bank has reported and the position on the NGB pension fund is clear can Ministers take a final decision. It is therefore important that

SECRET

confidentiality is maintained as far as possible before then. For this reason, we would argue that the normal rules for appointing merchant bank advisers to the privatisation programme be waived and that an appointment be made without a competition. We would also recommend that the review of the prospects of introducing private sector capital into Post Office activities and the review of the letter monopoly agreed by the Secretary of State and the Chancellor should not be announced in advance of the NGB announcement.

SPF2a/DTI

May 1985

29 MAY 1985

1 2 3 4 5 6 7 8 9 10 11 12
1985

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

29 May 1985

Margaret O'Mara
Private Secretary
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

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NBM
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Dear Margaret,

PRIVATISATION OF NATIONAL GIROBANK: HANDLING OF PAPERS

I am writing in combination with the attached letter from my Secretary of State to the Chancellor to draw your attention and that of other recipients to the extreme sensitivity of the contents and to ask that distribution within your Departments be as limited as possible.

2 My Secretary of State is recommending that National Girobank (NGB) should continue to be a privatisation candidate and that he should move quickly to the appointment of a merchant bank to make confidential approaches to potential purchasers and to explore with them how far we could go in overcoming certain obstacles to privatisation, identified in the paper, without damaging the prospects for a sale.

3 It is certain that privatisation will be opposed vigorously by the main NGB trade union, the clerical branch of the National Communications Union, at the main processing centre at Bootle which is dominated by Militant Tendency. There is currently sufficient uncertainty over the detail of the sale for Militant to be in a strong position to jeopardise very seriously the prospect of a sale. This uncertainty will be resolved when the merchant bank has reported and appropriate tactics for handling opponents of privatisation can then be developed. My Secretary of State therefore regards it as essential that the Government should retain control over the timing of any announcement and premature disclosure could have very severe consequences.

Yours sincerely,
Andrew Lansley JH2AQH

ANDREW LANSLEY
Private Secretary

20 MAY 1985



NDR1

AT 3/6



Secretary of State for Trade and Industry

ANNEXES TO ACCOMPANY
NORMAN TEBBITS LETTER
OF 29th MAY 1985

"PRIVATISATION OF
NATIONAL CIBOBANK"

COVERING SECRET

**ANNEY
A**

PO Draft 6)

THIS AGREEMENT IS MADE ON THE DAY OF 1985

BETWEEN:-

(1) The POST OFFICE of 33 Grosvenor Place, London SW1X 1PX
("the Post Office")

and

(2) NATIONAL GIROBANK of 10 Milk Street, London EC2V 8JH ("the
Bank").

WHEREAS the parties have a mutual interest in the maintenance
and development of the provision of banking services at post
offices and desire in furtherance thereof to establish the basis
upon which such services shall be provided NOW IT IS HEREBY
AGREED as follows: _

1. DEFINITIONS

In this Agreement the following expressions shall have the
following meanings:

"agency service"

means services provided by
the Post Office as agent for
other bodies, apart from the
Bank;

"banking powers"

means those powers conferred
upon the Post Office by
Section 7(1)(b) of the Post
Office Act 1969 (as sub-
stituted by Section 58(1) of

the British Telecommunications Act 1981) and such other powers conferred upon it by Section 7(2) of the Post Office Act 1969 as are incidental thereto;

"base rate"

means the base rate of the Bank published from time to time;

"cash"

means sterling notes and coins of any or all denominations;

"commencement date"

means the first day of April 1985;

"financial year"

means an accounting year of the Post Office for the purposes of section 75 of the British Telecommunications Act 1981;

"useful cash"

means cash which is useful to the Post Office having regard to its location, denominations and total value and which, if not deposited by the Bank and its customers, the Post Office would have been obliged to obtain from another source.

"base cash credit rate"

means the rate the Post Office shall pay for useful cash deposited by customers of the Bank in all post offices other than those specified in Schedule 4 and for the base volumes of useful cash as specified for those Head Post Offices listed in Schedule 4 hereto.

"marginal cash credit rate"

means the rate the Post Office shall pay for the marginal volumes of useful cash as specified for those Head Post Offices listed in Schedule 4 hereto.

"till money"

means the aggregate amount of cash and bank balances needed to operate the counter network. Till money therefore represents the working capital requirements of the counter network.

2. PROVISION OF SERVICES

2.1 By the Post Office

2.1.1 The Post Office shall as agent for the Bank provide to and in respect of customers of the Bank the banking services listed in the left hand column of Schedule 1 hereto upon the basis or at the places specified in the

right hand column thereof. The details contained in Schedule 1 may be varied either by addition or deletion upon the mutual agreement of the parties.

2.1.2 The services referred to in sub-Clause (1) hereof shall be provided subject to such conditions and in accordance with such procedures and quality standards as the parties shall from time to time agree in writing but subject thereto shall be under the direct day to day control of the Post Office.

2.1.3 The Post Office shall display point of sale material to promote the Bank's services at crown post offices for a charge to be separately negotiated.

2.2 By the Bank

2.2.1 The Bank shall provide point of sale material in such quantities and to such timescales as may be mutually agreed, to promote the Bank's services at all cash account post offices.

2.2.2 The Bank shall prepare error notices from reconciliation of cash account information provided by the Post Office with information received by the Bank direct from post office counters, and shall undertake associated work as jointly agreed.

3. SUPPLY OF CASH

- 3.1 The Post Office recognises the Bank as its chief source of bank notes and the Bank undertakes not to deposit notes with other parties except in mutually agreed circumstances.
- 3.2 The Bank undertakes to make the Post Office as near self sufficient in coin as is practicable in locations required by the Post Office.
- 3.3 The Post Office undertakes to accept from the Bank all useful cash which is offered to it by the Bank or deposited by customers of the Bank at post offices, and shall pay for such cash at the two rates, as defined in Appendix 1 hereto, to be negotiated annually; these negotiations shall take account of the following factors:-
- (a) full cost of supply from other banks;
 - (b) costs of handling and distribution thereof;
 - (c) proportion of useful cash to other cash;
 - (d) proportion of notes and coins;
 - (e) other factors which have an impact on the price of cash.
- 3.4 The Post Office undertakes to accept, wherever it operationally can do so, and subject also to any maximum cash limit set by the Post Office for security reasons in respect of each individual post office any cash deposited by customers of the Bank at designated post offices, whether or not it is useful cash. The

Post Office shall give value to the Bank in respect of all cash on the day of its being brought to account.

3.5 To the extent that the Post Office incurs costs in receiving, handling and processing cash deposited in accordance with this Clause, it will include such costs in the prices charged to the Bank under Clause 5 hereof. This includes costs of disposal of any cash which is not useful cash.

4. FUNDING ARRANGEMENTS : TILL MONEY

4.1 NGB will pay interest at the prevailing one year LIBOR rate on its share of the money held for one night; or longer as agreed jointly between the two parties in:

(a) inward remittances;

and

(b) at Head/District post offices

but excluding money held in counters tills ready for use next day. NGB's share of till money for the purposes of this clause is calculated as follows:

4.2 Cash in Inward Remittance

(a) The amounts that can be specifically identified as originating from Girobank Corporate Deposits because the cash is enveloped.

- (b) The Bank's remaining cash in inward remittances, excluding the Girobank Corporate Deposit cash flow as identified at 4.2(a) above.

4.3 Cash with Head/District Office Cashiers

- (a) The amounts that can be specifically identified as originating from Girobank Corporate Deposits;
- (b) Any specifically identified, Bank originated cash held at Head/District post offices excluding the Girobank Corporate Deposit cash flow as identified at 4.3(a) above.

The calculation of the above will be estimated in accordance with schedule 2C of this agreement and be based on actual up-to-date data mutually agreed between the parties. Interest will be paid in quarterly instalments as specified in Clause 5(2) of this agreement.

5. CHARGES FOR SERVICES

- 5.1 The Bank shall pay to the Post Office in respect of the services referred to in Clause 2.1 hereof an annual sum calculated in accordance with the provisions of Schedules 2 and 3 hereto, but offset by any sums due to the Bank under Clause 3 hereof.
- 5.2 The annual sum referred to in sub-Clause (1) shall be paid by the Bank in four equal instalments on 15th May, 15th August, 15th November and 15th February in each year (or the nearest weekday if any such date falls on a Saturday or Sunday or a Bank Holiday). The

IN STRICTEST CONFIDENCE

Post Office shall render an invoice to the Bank at least 14 days before the date for payment.

5.3 The Bank shall pay interest to the Post Office at the Bank's base rate plus % per annum in respect of payments made later than the dates referred to in sub-clause (2).

5.4 Each party shall have the right, upon giving reasonable notice, of access to and inspection of such documents and information in the possession of the other as is or are necessary to enable the charges payable under this Agreement to be properly and accurately calculated.

6. INDEMNITY RELATING TO CHEQUES ETC

The Bank hereby indemnifies the Post Office against all actions costs claims and expenses arising out of or incurred in connection with the payment or collection of cheques and other instruments in the ordinary course of business by the Post Office on behalf of the Bank or any of the Bank's customers. This indemnity shall not affect the right of the Bank to pursue claims against or defend claims by the Post Office for loss arising out of a failure on the part of the Post Office's staff, including subpostmasters, to comply with Postal Instructions relevant to the payment or collection of cheques and other instruments.

7. DURATION AND TERMINATION OF AGREEMENT

7.1 This Agreement shall take effect on and from the commencement date and shall continue in force, until

amended or terminated in accordance with the provisions of this Clause.

7.2 As regards any one or more of the services provided under Clauses 2 and 3 hereof, either party may at any time:-

- i) Give not less than 12 months prior notice to the other of a desire to renegotiate the prices or any part thereof payable under the Agreement. Such notice not to be given earlier than 1 April 1987;
- ii) Give not less than 60 months notice to the other to delete, or materially alter, any of the services listed in Schedule 1A;
- iii) Give not less than 24 months notice to the other to delete, or materially alter any of the services listed in schedule 1B.
- iv) Give not less than 60 months notice to the other of intent to terminate this Agreement.

The party terminating must within three months after the date of giving notice, provide to the other a statement of its intent concerning any future Agreement between the parties.

7.3 Termination of the Agreement in accordance with sub-Clause (2) of this Clause shall not affect any rights of either party which may have accrued prior to the date upon which the termination takes effect.

8. FORCE MAJEURE

Neither party shall incur any liability to the other as a result of any omission, error, delay or other default where such omission, error, delay or default results from any industrial dispute or strike or from any circumstances whatsoever outside the reasonable control of that party including, but not limited to, any fire, flood, explosion, riot, Government act, war or any other force majeure or Act of God.

9. ARBITRATION

All disputes, differences or questions between the parties with respect to any matter or thing arising out of or relating to this Agreement, except to the extent to which special provision for the determination of disputes is made elsewhere in the Agreement, shall be referred to-

- The arbitration of such persons as The Post Office shall from time to time think fit whilst the Bank is a wholly owned subsidiary of The Post Office.
- The arbitration of two persons, one to be appointed by each party, or their Umpire, in accordance with the provisions of the Arbitration Act 1950 or any statutory modification or re-enactment thereof, if the Bank is not a wholly owned subsidiary of the Post Office.

The decision of the arbitrators shall be final and binding upon the parties.

10. EXCLUSIVITY

10.1 The Post Office undertakes not to exercise its banking powers except as agent for the Bank, or as otherwise

agreed in writing with the Bank, except to the extent that it undertakes services on behalf of the National Savings Department.

To the extent that any service can be provided by The Post Office under both its banking powers and its other powers, it shall be deemed to be a banking service if listed in Schedule 1.

10.2 The Bank undertakes that during the period of five years from the commencement date the proportion of its business volume (in Basic Transaction Hours) at post office counters to its business volume at all counters at which equivalent services are offered shall not decline at more than 3% per annum cumulatively. In the event of default on this undertaking, the Bank will compensate the Post Office by paying charges as though the undertaking had been met. The Post Office shall have the right to request the Auditors to the Bank to certify matters relating to the foregoing. In the context of this Clause:

a) Changes in business volume which result from changed counter methods or technology;

and

b) Changes in business volume of DHSS Girocheques

shall not count towards the calculation of change in volume.

10.3 Clause 10(1) does not apply to any service listed in Schedule 1 whose transactions across post office counters falls below x% of the 1985/86 level.

11. ASSIGNMENT

The parties hereto shall not assign their respective rights and obligations under this Agreement.

12. NOTICES

Any notice required to be given hereunder shall be in writing. The address for service of notices under this Agreement shall be:

The Post Office -

The Bank -

or such other address as either party has notified to the other for this purpose.

Notices may be sent by first class post or delivered by hand, and in the case of the former shall be deemed to have been received on the business day next after the day of posting.

13. GOVERNING LAW

This Agreement shall be subject to the Law of England and the jurisdiction of the courts of England.

14. The headings to Clauses in this Agreement are for ease of reference only and shall not affect the interpretation thereof.

IN STRICTEST CONFIDENCE

IN WITNESS whereof the parties hereto have caused this Agreement to be duly executed the day and year first above written.

CASH CREDIT

The Post Office will pay a cash credit for useful cash provided through deposits.

Cash credit will be paid at the following rates:

p/100

- base cash credit rate
- marginal cash credit rate

in each case from the commencement date.

The rates will be subject to annual review and will be agreed between the parties prior to the commencement of the financial year in question.

Schedule 4 provides the forecast target cash volumes for the HPO's areas in which the lower cash credit rate (ie marginal) will apply in the first year. (The targets and the number of HPO's in which the lower rate applies will be reviewed annually and notified to the Bank prior to the commencement of the financial year in question.

The total price paid for useful cash will be provisionally calculated in advance of the account year on the basis of forecast requirements and forecast supply. Adjustments will be made retrospectively based on actuality.

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SCHEDULE 1A

COUNTER AND OTHER SERVICES PROVIDED BY THE POST OFFICE (AS AT JANUARY 1985)

<u>Service</u>	<u>Availability</u>
1. Corporate Deposits	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.
2. Other Cash Deposits to Girobank Account.	All cash account post offices.
3. Cheque Deposits to Girobank Account	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.
4. Cash withdrawals by cheque from Girobank Account.	All cash account post offices subject to specified card limits.
5. Cashcheques (excluding social security cheques).	All cash account post offices subject to instructions on cheque.
6. Rent vouchers and card payments	Specified range of post offices for each housing authority.
7. Social Security Cheques	All post offices subject to instructions on cheques.
8. Change giving	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.

SCHEDULE 1B

1. Sale of Thomas Cook Travellers Cheques	All cash account post offices.
2. Bureau De Change	Specified post offices as jointly agreed by the Bank and the Post Office.

The precise detail of the services to be provided shall be as specified in Postal Instruction M2 H (as varied from time to time).

[These schedules cover the main product groups but needs expansion to accommodate the contents of para 7.2 (ii) and (iii)]

SCHEDULE 2

A. CALCULATION OF CHARGES FOR SCHEDULE 1 SERVICES
(excluding item 7)

For each financial year of this agreement the Bank will pay to the Post Office:

1. A base sum of £ m in 1985-86 prices ("the fixed price") as the Bank's contribution to fixed costs of the Post Office's counter network. For each year after 1985-86 the fixed price shall be increased by the percentage increase in the Retail Price Index plus/minus x.
2. For each service listed in Schedules 1A and 1B a fixed unit price per service times the number of transactions for each service. These unit prices will be related to base 1985-86 variable cost levels. The unit price for each service may be varied by negotiation as a result of review of the service as operated at the counter (particularly in respect of timing and value), such review to be carried out jointly by the Bank and the Post Office. For each year after 1985-86 the fixed unit price per service shall be increased by the percentage increase in the Retail Price Index plus/minus y.
3. In addition, for annually agreed discrete services, incentive discounts will be offered for volume achievement over and above the agreed forecast volumes in the year in question, (unless previously agreed for longer periods).
4. For any new service, the work content, having due regard to any operational difficulty caused at the counter, will be jointly assessed by the Bank and the Post Office and a unit price will be negotiated. Thereafter the price will alter as in paragraph 2 above.

The impact on the fixed costs of the Post Office will also be jointly assessed and, if appropriate, will increase the sum in paragraph 1 above by a negotiated amount.
5. The foregoing will include all elements of the costs of the Post Office in serving the customers of the Bank, as listed in Schedule 3.

NOTE - Until such time as the fixed and variable cost levels can be established to the mutual satisfaction of both parties an interim fixed price sum and interim fixed unit prices per service will be mutually agreed by negotiation annually. It is the intention that this interim measure will apply only for 1985-86.

B. CALCULATION OF CHARGES FOR SCHEDULE 1, ITEM 7 SERVICES

The price for DHSS cashcheques will be calculated as a fully allocated price

IN STRICTEST CONFIDENCE

per unit in base 1985-86 prices; each year, this price will increase by the percentage increase in the Retail Price Index plus/minus z.

C. CALCULATION OF ANNUAL SUM

The annual sum referred to in clause 5(i) of this Agreement shall be estimated on the basis of forecasts of traffic volumes, made by the Bank by 31 July of the year preceding the financial year in question, and applied to unit prices as specified in this Schedule, and with the addition of the 'fixed price'.

An initial quotation will be given by the Post Office by 30 September and a mutually agreed provisional price reached by 30 November (in each case in the year preceding the financial year in question).

The Bank will supply a further estimate to the Post Office in April of the financial year in question, and this estimate will then form the basis of the quarterly payments. An assessment of actual traffic volumes will be agreed between the parties in the May following the end of the financial year in question, and any resulting adjustment settlement will be made on 1 June next thereafter.

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SCHEDULE 3

ELEMENTS OF COSTS OF THE POST OFFICE IN PROCESSING THE SERVICES
AT SCHEDULE 1

Processing, in the context of this agreement includes:

At local office level:

- i) Counter serving and all related activities (eg enquiry work)
- ii) Local office accounting
- iii) Cash and stock provision, distribution and control
- iv) Local office administration, including counter-related clerical work.
- v) Banking and funding arrangements
- vi) Security and other ancillary costs

At Regional and Postal Headquarters level:

- i) Centralised accounting and stock control
- ii) Banking and funding arrangements
- iii) Internal audit and administration

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SCHEDULE 4

CASH CREDIT - TARGET AND RATES

<u>Location</u>	<u>Target Volumes</u>	
	Base £m	Marginal £m
<u>District X</u>		
HPO		
HPO		
HPO		
etc		
Total District X	_____	_____

District Y

HPO
etc

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SEPARATE GIROBANK PENSION SCHEME

1 Introduction

This memorandum considers how the pension entitlement of employees and pensioners of Girobank could be dealt with, should Girobank become a separate legal entity, constituted under the Companies Act. It takes as a hypothesis that this should be achieved without new legislation, though paragraph 9 indicates how some of the problems could be overcome if legislation were enacted. It also assumes that it will not be possible to change the Trust Deed of POSSS, though this could be done either by the unanimous support of all trustees (which could be difficult to achieve), or by the Secretary of State making an order under Section 76 of the British Telecommunications Act 1981.

2 Setting up the Scheme

If Girobank were to become a separate legal entity which was not a subsidiary of the Post Office, then it would be necessary to set up a Girobank Staff Superannuation Scheme which would in many, but not necessarily all, respects look like the Post Office Scheme. This necessitates drawing up a new Trust Deed and whilst an interim deed could be produced in a day, a finally approved scheme could take up to two years, if it was very materially different from the present scheme. The reason for this long timescale is that it needs approval for tax purposes from the Superannuation Funds Office to give it exempt status and the Occupational Pensions Board for contracting-out purposes in particular. Provisional approval can usually be obtained quickly; such an approach secures all the related tax advantages and contracted-out status for members of the scheme - the debility being that recoveries of tax deducted at source on income derived from the investment of monies transferred to the new scheme would be delayed until full approval were forthcoming. In certain cases where the Superannuation Funds Office deems the loss of income on the tax recovery deferred to be material, the recovery has been granted subject to the Trustees giving certain undertakings. Whilst, therefore, the Superannuation Funds Office might be willing to co-operate in this way we have nevertheless thought it right to explore three other ways of coping with the time factor.

- a) Set up the new company, but second staff to it, rather than transfer them, until the new scheme is finalised. It is not clear what complications this would produce when staff were eventually required to transfer.
- b) Set up the new company, transfer the staff to it but arrange for the transfer from POSSS to take place only when the new scheme is complete. However, the Solicitor's view is that, as POSSS is open only to Post Office employees, this would be possible only with an alteration to the Trust Deed.
- c) Ensure that the new scheme is ready at the date of setting up the new Company. This is seen as the safest course. Both the Actuary and the Solicitor would be content to work to a target date of October 1986, assuming a prompt start is made to the work and on condition that no attempt was made to make wholesale changes to the pension conditions for existing staff. Indeed, there would be a strong case for allowing them to transfer on identical terms to those that they have at present. If the Trust Deed is suitably drafted, this would not preclude offering

IN STRICTEST CONFIDENCE

If the share of the fund approach were applied strictly, the transfer values produced should in total equal the full reserves for the accrued benefits of Girobank employees calculated on the latest valuation basis and reduced in proportion to the asset-cover applicable to the whole POSSS - the fund being treated as a single entity for funding purposes. It may be argued, however, that the contribution rate required in respect of Girobank employees is considerably less than the overall contribution rate which has been paid by both the Post Office and Girobank in the past, and that therefore it might be reasonable to transfer the full reserves without the proportionate reduction. If the Post Office as well as the Trustees were to agree that such enhanced values were justified on these grounds, such payments could be granted within the terms of Rule 20. We believe the approval of the Post Office is necessary, because it would in effect be bearing the cost of dealing with Girobank employees in this special manner.

If, however, the Trustees were not willing to accept an enhanced scale to be used specifically for the transfer of Girobank employees, there would be a shortfall of assets to cover the liabilities transferred in the new scheme. It would nevertheless be possible for the Post Office to make good the shortfall by paying a lump sum direct to it or by establishing an equivalent deed of covenant promising payments over a number of years.

If it were decided that Girobank should be given the benefit of the extra notional contributions which it has been paying, it should be immaterial whether enhanced transfer values are paid or whether the Post Office makes contributions to the Girobank Scheme in the manner just described, as the Post Office's future contributions to POSSS will reflect whatever monies are left after the transfers take place.

6 New Employees

After the formation of Girobank as a separate legal entity, all new pensionable employees would join the new scheme and would receive benefits in accordance with the rules. These benefits would not necessarily be the same as for those who transferred from the Post Office.

7 Administration of the New Scheme

Currently, pension administration is handled at Chesterfield. It is possible for this arrangement to continue, with the Post Office acting as Girobank's agent while it is a Post Office subsidiary and after that on a 'spare resources' basis. However, if in the longer term Girobank ceased to be part of the Post Office Corporation, it is likely that Girobank would wish to undertake this work for itself.

The new scheme will also need to make arrangements for the investment of the fund's monies, including the assets received from POSSS. Various options are open and will need examination, though this memorandum does no more than note some of them.

- a) Will PosTel be retained for the management of the assets?
- b) Will the transfer payment be made by means of a share of the actual assets owned by POSSS, or by their cash equivalent?

IN STRICTEST CONFIDENCE

8 Trust Deed

If the Trust Deed were altered, then this could smooth the passage of change. At a very simple level, the Post Office Scheme could be extended to temporarily cover employees transferring to a new approved employment which had not been fully established as a scheme to which Rule 20 could be applied. Of potentially greater significance would be to change the Trust Deed and Rules, or to have them changed by statutory instrument in such a way

- a) that employees of National Girobank were still eligible and required to be members of POSSS whilst Girobank were a subsidiary of the Post Office.
- b) that accounts be established and maintained within POSSS on advice from the Actuary which show separately the assets and liabilities applicable to Girobank staff from those of Post Office staff.

This would avoid the necessity of setting up a new scheme immediately, but would not solve the problem if Girobank, at some stage, ceased to be a subsidiary of the Post Office or wished to establish its own scheme.

9 Legislation

If it were decided that legislation was necessary to establish Girobank as a separate company, then this, too, could ease the path of the change. It would still, of course, be necessary to set up and get approval to a new scheme. The advantages would be that

- a) all employees could be transferred without the complication that some might opt to have pensions frozen under Rule 21.
- b) the legislation could determine how the fund is to be divided and hence there would be no need for there to be agreement by the Post Office or the Trustees to any special payments. The legislation might be on the assumption that the scheme was fully funded at the time of transfer or alternatively that the amount transferrable should be determined by reference to notional accounts kept in respect of Girobank members since October 1981.
- c) the problems of timing of transfers of staff and assets could be resolved.

10 Next Steps

10.1 The drafting of a new Trust Deed needs to be put in hand. This is a substantial task, requiring much work by the Solicitor and Girobank. It is recommended that this be started immediately.

IN STRICTEST CONFIDENCE

10.2 Work on determining how the assets should be transferred and managed needs to be undertaken. Any transfer of assets will need to reflect the position disclosed by the March 1985 valuation for which the Actuary is preparing notional accounts in case they should be needed for the purposes set out above and also to assess the future contribution rate payable by Girobank if a split does not take place.

10.3 If it were decided that Girobank should cease to be part of the Post Office Corporation, it would be desirable to enable the Bank to undertake its own pension administration, if it so chose to put work in hand. So long as Girobank remains part of the Post Office, however, pension administration would be undertaken on behalf of the whole Corporation at Chesterfield.

18 February 1985

Post + TELS A9
future

NBPM
BT
20/5

CCAD



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6106
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WELSH OFFICE
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Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

21st May 1985

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

I have seen your Private Secretary's letter of 10 May to No 10 referring to BT's proposed acquisition of a controlling interest in Mitel and to the consideration by the Director General of Fair Trading, and perhaps later by yourself, of the competition aspects of this.

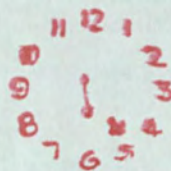
Mitel, as you clearly know, is already a major employer in South East Wales but my interest in the company goes deeper than that. The announcement of the Mitel project in 1980 was a very significant landmark in the industrial restructuring of South Wales. In employment terms the company has not yet lived up to our expectation, its present labour force of 790 being under half of the 1,700 forecast in 1980. In part this stems from the difficulties faced by Mitel in Canada and elsewhere. But whatever the cause I regard the consolidation and development of Mitel's Welsh operation as important in itself and of crucial significance in the context of microelectronics developments along the M4 west of the Severn Bridge. It seems to me that, in that context, BT's acquisition of Mitel would be a splendid thing. I was in fact strongly tempted to express such a view in this week's Welsh Grand Committee debate but refrained from doing so for fear of compromising your position, should you have to consider advice from the Director General on the question of a reference to the Monopolies and Mergers Commission.

The fact that your Private Secretary's letter was copied to mine indicates your awareness of my considerable interest in Mitel's future. Could I however please ask you to keep me closely in touch with developments in this matter. Copies of this letter go to the Prime Minister and to Willie Whitelaw.

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

POST + TELECOM; Future of Post office 179

21 MAY 1985



SUBJECT

cc Master.

SECRET



Je VC 7.
c Mr Wharmy

10 DOWNING STREET

From the Private Secretary

16 May 1985

Dear John,

MERCURY

BE/

The Prime Minister discussed with the Chancellor today the question of public procurement and Mercury which the Secretary of State for Trade and Industry raised with her recently. She said it was important for the success of the Government's telecommunications policy that Mercury should prosper. It would be wrong, however, to provide special treatment for Mercury. It was agreed that, as a preparatory step to increasing the awareness of departments of what Mercury could offer, a survey should be conducted of the procurement needs which Mercury might be able to meet. The Chancellor suggested the renovation of the Federal telephone network. The Prime Minister asked that DTI officials, in conjunction with the Treasury, should produce a note setting out these opportunities.

I am copying this letter to Rachel Lomax (HM Treasury).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

John Mogg, Esq.,
Department of Trade and Industry.

SECRET

cst



TO note. (2)
PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

14 May 1985

Dear Andrew,

attached — The Lord President has seen a copy of your letter of 10 May to Andrew Turnbull about British Telecom's intention to acquire the Mitel Corporation.

Lord Whitelaw has commented that Lord Weinstock and others will indeed create a tremendous row if the acquisition goes through without reference to the Monopolies and Mergers Commission.

I am sending copies of this letter to Andrew Turnbull, and to Colin Williams in the Welsh Office.

Yours ever,

Janet Lewis-Jones

JANET A LEWIS-JONES
Private Secretary

Andrew Lansley Esq

15 MAY 1985

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NBSPM
BT
10/15

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
Minister of State for Industry
and Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

14 May 1985

Alan Gregory

POST OFFICE: TARGETS

Thank you for your letter of 30 April.

I have some comments which I should like to make on your latest suggestions about the review of the Post Office profit targets which you first proposed in your letter of 19 March. I agreed to your proposal in my letter of 17 April but also suggested that the review should take into account the effects of an adjusted profit target on the agreed baselines. You suggested some difficulties with this approach.

Nevertheless in present circumstances I think it would be irresponsible for the review not to consider the public expenditure implications of changes to the three year profit target which you proposed in your 19 March letter, and ways in which any increases in the Post Office's future external financing requirements could be accommodated and offset. I have seen the Post Office's bids for substantial increases over baseline in each of the years covered by the current IFR. These bids purport to reflect a change in the profit target to a 3 per cent return on capital. The reasons for this change are opaque but I assume it is an attempt to prejudge the outcome of the proposed review. The size of the Post Office's extra bids in this year's IFR has reinforced my view that the review you have proposed would be a major risk to public expenditure baselines without the conditions I have suggested.

I also have some further suggestions about your latest proposals for managing the timing and presentational difficulties of a review. I argued in my letter of 17 April that the profit targets and the efficiency targets are connected. Changes in the profit targets can be expected to influence the volume of Mails and Counters business and so impact on the assumptions underlying the efficiency targets. If the profit targets are

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CONFIDENTIAL

to be reviewed this connection means that the efficiency targets should be reviewed simultaneously and possibly adjusted to ensure that they continue to require the same demanding standards of performance which you had originally envisaged. It follows that if we are to set one year interim profit targets as you suggest we should also be setting one year efficiency targets so that the results of the review can be taken into account in formulating both sets of follow-on targets.

You have already proposed that Mails and Counters should each be targeted to achieve 4.5 per cent turnover 1985-86 and we have also agreed that Mails should be expected to achieve at least a 2 per cent reduction in real unit costs this year and Counters at least 1.5 per cent. I suggest that we now set these one year targets and officials start the review of the financial target and aim to report back to us by the end of August. The review by officials should cover the present formulation and level of the Post Office's financial target and should consider all relevant factors, including:

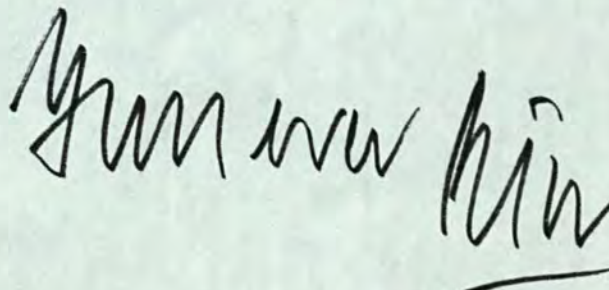
- (i) the consistency of the present financial targets with Government policies and objectives;
- (ii) the implications of the principles in Command 7131 for the particular circumstances of the Post Office;
- (iii) the consequences of any revisions to the financial targets for the Post Office's efficiency targets, EFL baselines and public expenditure

I note your comments about the need for adjustments in using 1984-85 as the base year for the new targets but in the absence of any arguments about principle I suggest that we take 1984-85 as the base year and our officials examine the implications for the targets of the adjustments you mention.

On my proposal for separate EFLs for Mails and Counters, you suggest there are practical difficulties. I accept that it would be unrealistic to expect a system of separate EFLs to operate with perfect precision from the outset. On that basis, I suggest our officials examine the practical difficulties you mention and aim to resolve them in time for final decisions in the IFR.

I hope officials can now proceed on the basis outlined above.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.



PETER REES

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POST + TEL: Future Pt 9



MAY 1965

Prime Minister (2)
To note AT 15/15



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

PS/Secretary of State for Trade and Industry

10 May 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

Sir George Jefferson, the Chairman of British Telecom, saw Mr Pattie earlier today and told him that BT expected to announce today the intended acquisition of the Mitel Corporation, a substantial Canadian manufacturer of telecommunications equipment. Mitel also has a UK subsidiary manufacturing telecommunications equipment at Port Skewett in Wales.

2 This intended acquisition by BT gives rise to competition issues which Ministers here will need to address. Because of the size of Mitel and its supply activities within the UK of certain kinds of telecommunications equipment this will be a merger qualifying for possible reference to the Monopolies and Mergers Commission under the Fair Trading Act 1973. This being so, in the light of whatever advice is given by the Director General of Fair Trading, my Secretary of State will have to decide whether or not the Monopolies and Mergers Commission should be asked to investigate the proposed acquisition. It is only if the Monopolies and Mergers Commission conclude that a merger would be against the public interest that there is power to prevent the acquisition.

3 Even after liberalisation the dependence of other UK equipment manufacturers on BT's outlets is still so great that this Mitel-BT proposed link-up will re-awaken fears of BT's manufacturing intentions voiced so strongly during the passage of the Telecommunications Bill. The calls from Lord Weinstock and others for the acquisition to be prevented (or at least referred to the Commission) are likely to be strident.

4 The existing BT licence contains conditions intended to ensure that BT's existing apparatus supply interests are not unfairly advantaged because of BT's position as an operator. Much emphasis was placed on these licence provisions whilst the Bill was being

JH5BBG



considered in Parliament in defence of the Government's decision to privatise BT without a prohibition on its involvement in manufacturing. The conditions relate to unfair cross-subsidies, separate accounts for the apparatus supply business, the separation of that business from the rest of BT's telecommunication activities, the prohibition of preferential treatment, the prohibition of linked sales and the prohibition of certain exclusive dealing arrangements. The safeguard that these conditions represent would apply in respect of the Mitel interests that BT acquired by takeover. Amendment to BT's licence to strengthen the safeguards could only come about with BT's agreement or, in its absence, a reference by the Director General of Telecommunications to the Monopolies and Mergers Commission.

5 In industrial and commercial terms the acquisition by BT of a substantial overseas telecommunications company has arguments to commend it. Because competition implications exist, however, in the light of the advice given by the Director General of Fair Trading, Ministers are likely to have to choose between:

- (a) referring the proposed acquisition to the Monopolies and Mergers Commission;
- (b) not making a reference but relying on the existing conditions in the BT operating licence to provide the safeguards against the enhanced BT equipment supply monopoly that would follow from the acquisition.

6 That decision cannot be made until the Director General of Fair Trading's considered advice, which will need to be arrived at in association with the Director General of Telecommunications, is to hand. In the meantime the line we shall be taking here is the standard one for qualifying merger situations - that the Secretary of State will take his decision in the light of the Director General's advice.

7 I am copying this letter to the Private Secretaries to the Lord President and to the Secretary of State for Wales.

Yours ever,
A. D. Lansley

ANDREW D LANSLEY
Private Secretary

JH5BBG

13 MAY 1989

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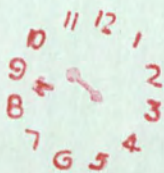
Andrew

We're trying to track
down the more specific
note mentioned in Q3
as I think that will be
more relevant to your
question.

Margaret

17/4

19 APR 1963



QUEBEC REGION



HM TREASURY
OFFICE NOTICE

ON(General)(84) 106

9 November 1984

SHARES IN BRITISH TELECOM (BT)

Shares in British Telecom (BT) are being offered for sale directly to individuals on a wide scale. You may therefore like to be reminded of the rules about Treasury staff buying and dealing in shares.

— 2. The rules are attached. Applied to BT they mean there are two things you must not do. You must not buy or deal in BT shares if you have, or could be regarded as having, special knowledge affecting the value of the shares. And you must not buy or deal in BT shares if your work involves you in government decisions (like the award of contracts) affecting BT's business.

3. There are people whose position in the Treasury clearly makes it wrong for them to buy BT shares, because to do so could give rise to public criticism. I have so advised them separately. If you have not received that separate minute you must still consider whether it is proper for you to buy BT shares, but there is no prima facie reason that we can see why you are not free, like any member of the public, to do so or not as you wish. Brian Fox or I will be happy to discuss any particular circumstances which may not be clear. But in a matter of propriety like this, if you yourself have any doubt then the right course is not to buy.

BRIAN GILMORE

General Principles of Conduct

9870b. a civil servant must not subordinate his duty to his private interests, neither is he to put himself in a position where his duty and his private interests conflict and he must not make use of his official position to further those interests;

(c) though the State is in general not concerned with its servants' private activities, they must not be as might bring discredit on the service; for example heavy gambling and speculation are to be avoided, particularly in departments which have access to information which could be transmitted for gain;

(d) the high standard which the Service sets itself goes beyond the normal standards of personal honesty and integrity; the civil servant must not only be honest in fact, but also he must not lay himself open to suspicion of dishonesty;....

Shareholdings

9874 There is no objection to civil servants holding private investments. If, however, a shareholding might raise a question of possible conflict with the interests of the officer's department the officer should consult his Establishment officer about the desirability of acquiring it or retaining it.

9875 Under the provisions of the Companies Act 1980, it is an offence for an officer who has obtained information in his official capacity which, if known on the market, would be likely materially to affect the price of securities in a company, either to deal in any relevant securities, to procure such a deal, or to impart information which might facilitate such a deal. Any officer who has doubt about his position should consult his Establishment Officer.

TREASURY HANDBOOK (Extract)

C3 BUSINESS ACTIVITIES

Shareholdings

3.2 There is no objection to your holding private investments. Particular care should, however, be taken to ensure that dealings in stocks or shares do not leave you vulnerable to the charge of trading on information which has come to you in the course of your official duties. If your shareholding might raise a question of possible conflict of interest, you should consult the Deputy Establishment Officer.

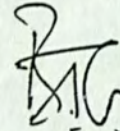
UNCLASSIFIED

FROM: B T GILMORE

9 November 1984

SHARES IN BRITISH TELECOM (BT)

— I attach an Office Notice giving guidance on the propriety of Treasury staff buying shares in British Telecom (BT). For the reasons given in that notice we believe that it could provide grounds for public criticism if you were to buy BT shares when they are issued or in the first month of dealing, and you should not therefore do so.



BRIAN GILMORE

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NAPM AT 2014 CCAO



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

30 April 1985

Dear Chief Secretary,

POST OFFICE TARGETS

Thank you for your letter of 17 April from which I was glad to learn of your agreement to a review of the appropriate profit targets for the Mails and Counters businesses of the Post Office. Before I announce the review, however, I think that it is necessary to be clearer on one or two points.

I cannot agree to your suggestion that "the review should consider how to reconcile the EFLs which we have agreed with the reduced profit target" which I am advocating. For a start, we have not agreed EFLs for the period to which the review will relate - 1986/87 onwards. We have agreed planning totals for the first two years. But more importantly, there already exists a review procedure for considering precisely this issue - the Investment and Financing Review. The proposal in my letter of 19 March was that the IFR should be preceded by a review of the profit targets that would cover the basis on which the targets are set and their quantification. This should be completed in time to allow the properly-determined numbers to be fed into the Post Office bid and we would then be in a position to consider what further savings might be necessary in the context of your public expenditure survey exercise.

I do believe that, unless you can agree to this change of emphasis, we shall be left in a wholly indefensible position on Post Office targets. In our dealings with the Post Office and publicly we shall be stressing the merits of Government policy towards nationalised industries as set out in Cmnd 7131; we shall continue to argue, as the MMC did in its recent report, that it is essential

AP3/AP3ABY



that the Post Office should develop a model of long-run marginal costs; we shall argue on investment appraisal cases that the opportunity cost of capital must be recognised by the RRR approach; and, on the basis of your suggestion, we shall continue to insist that these two factors and general resource allocation arguments have no place in determining Post Office profits or the price of a postage stamp.

As you have acknowledged in your letter, the present profit targets are substantially higher than can be justified on the basis of Cmnd 7131. A return to rational targets has significant implications for prices. There is no case, in my view, for an increase in the inland letters tariff in 1985/86 and, on present inflation assumptions and given the demanding efficiency targets for Mails on which we are agreed, a move to the basis of target setting that I am proposing would mean that inland letter prices could be maintained for a considerable period. There is a real prospect of a 3½ year freeze on inland letter tariffs. Such an outcome would have clear benefits for counter-inflation policy.

I accept your point that it is presentationally difficult to announce simultaneously three-year profit targets and an immediate review of those targets - although I feel that you may be over-estimating the importance of the profit target in the Post Office's medium-term planning. The very good performance in the last two years, which were subject to annual profit targets but a three year RUC target, illustrates well it is the RUC target that is the main driving force for the Post Office. With this in mind, I have consulted the Post Office and confirmed that the Chairman is content for me to announce that we shall be conducting a review of the appropriate profit targets now that we are treating Mails and Counters as separate businesses from 1986/87 and that, as an interim measure, we shall be setting a one year profit target for 1985/86. The fact that we are now some way into the target period reinforces the case for this approach. As the Post office is content, I assume that you have no objections.

There is one other point on which I should be grateful if you would reconsider your position. This concerns your rejection of my proposal to use 1981/82 as the base year for the RUC targets. I could not in any case agree to set 1984/85 as the base year "without adjustment". It is quite likely that 1984/85 will include some £24 million of Counters closures costs which would yield a Counters RUC benefit of 3% simply by not being repeated in 1985/86; and 1984/85 may well include up to £30 million lead-in payments in connection with the productivity package being negotiated on the Mails side - with an immediate 1¼% Mails RUC benefit in 1985/86.

M12/M12AES



Your proposal for separate EFLs for Mails and Counters for 1986/87 raises a number of practical difficulties in that useable data will not be available until after the start of the 1986/87 accounting period. I can agree to increase the annual minimum RUC increase for Mails to 2%; and I can assure you that officials here will be able to cope with the review of the profit target in addition to the other work which you mention in your letter.

Finally, I would add that I share your concern about the delay in agreeing and announcing these targets and I therefore hope that you will be able to let me know fairly quickly that you are content for me to announce the review and the new targets through an arranged PQ. A draft of the proposed announcement is attached.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

Yours sincerely,

Timothy Abraham

pp. GEOFFREY PATTIE

*(Approved by the Minister
and signed in his absence)*

M12/M12AES

DRAFT PARLIAMENTARY QUESTION AND ANSWER

Q. To ask the Secretary of State for Trade and Industry if he will announce financial objectives and performance aims for the postal business of the Post Office; and if he will make a statement.

A. Over the last several months the Post Office has moved to greater separation of the Mails and Counters businesses operationally, managerially and financially. I have therefore decided that this is the right time to discontinue the setting of postal business targets and to move, from 1985/86, to setting targets separately for each of Royal Mail and Counters. National Girobank is already targeted separately.

The postal business was set the performance aim in February 1982 of reducing its real unit costs by 5% in the three years to 1984/85 taking 1981/82 as a base, with a provision for a reduction of 2% in 1982/83. I congratulate the management and workforce of the Post Office for having bettered that target on the basis of latest estimates. Within that figure, the contribution of the Royal Mails business was somewhat greater - at an estimated 6% reduction - than that of the Counters business - an estimated 3½%.

I have decided that the Royal Mails business should be set the target of further reducing its real unit costs over the three years to 1987/88 to secure a total reduction of 13% compared with 1981/82; and that the Counters business should be targeted for a total reduction of 10% compared with 1981/82. This equates to a 7.5% reduction over the next three years for Royal Mails and a 6.5% reduction for Counters. I have also decided that Mails should be targeted for a minimum annual reduction of 2% and Counters 1.5%.

The Government have no doubt that it is vital to the future of both businesses and to the future of jobs in both businesses that the Post Office should strive to make significant improvements in efficiency in order to retain its existing customers and to attract new work. I believe that these targets are demanding but I am confident that the Post Office is capable of reaching them.

The move to separate targets raises certain problems in attempting to set financial objectives. It will be a little time yet before sufficiently robust figures are available on which separate profit targets for the two businesses could be determined.

I have therefore decided to review the financial objectives for Mails and Counters and to delay setting medium-term financial objectives until later this year. As an interim measure therefore, I have decided that each of Royal Mails and Counters businesses should be required to secure a 4.5% return on turnover, on the current cost accounting convention, before tax but after interest, for the financial year 1985/86.

POST & TELECOMM: Future of Post
Office : " Pt 9.

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PURCHASES OF BRITISH TELECOM SHARES BY EMPLOYEES OF KLEINWORT
BENSON LIMITED

LINE TO TAKE

Employees of Kleinwort Benson were in the same position as members of the public. They had no unfair advantage, and their applications for BT shares were treated in exactly the same way as members of the public. No employees therefore received more than 800 shares, and the maximum capital gain for any employee is correspondingly moderate.

Kleinwort Benson's practice in the BT issue was broadly consistent with market practice for broking and merchant bank advisers in new issues.

I believe the Hon Gentleman entirely misrepresents the highly professional approach of employees of Kleinwort Benson to suggest that their advice was influenced by the prospect of personal gain. In these circumstances I see no reason to insist on full disclosures of share dealings by Kleinwort Benson employees, or the disgorgement of any capital gains.

[If required: We naturally sought independent advice on pricing, not at all because of the risk of personal conflicts of interest, but because of Kleinwort Benson's position as lead underwriters.]

CONFIDENTIAL



NBM

RT 22/4

CNS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

19 April 1985

Dear Secretary of State

POST OFFICE: INDUSTRIAL RELATIONS

You wrote to Nigel Lawson on 12 April about the settlement of the recent industrial relations dispute in the Post Office. I am grateful to you for your regular reports during the dispute.

I am pleased that throughout these negotiations the Post Office do not appear to have made any concessions of substance to their original package of efficiency measures. Judging by your reports, the Post Office took a decisive and determined approach to these negotiations and to the implementation of more flexible and efficient working methods. The significant progress and efficiency gains now in prospect justify this approach. I hope you will encourage Sir Ronald Dearing to continue to tackle remaining inefficient working practices with the same vigour and resolve.

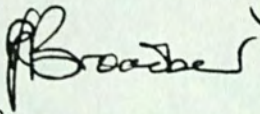
You discuss the phased lead-in payments offered by the Post Office. These payments should be useful to Post Office management in resisting claims for substantial pay increases in the main pay negotiations which you mention are shortly to begin. I trust the Post Office accept that the costs of the payments and the pay settlement should be financed within their agreed EFLs and should not require any adjustments either to tariffs or to the Post Office's targets. We await the Post Office's proposals on pay but I am certain that Sir Ronald Dearing recognises the importance we attach to low pay settlements and will not want to risk jeopardising through excessive pay awards

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CONFIDENTIAL

the potential for efficiency gains which he has secured.

I am copying this letter to the Prime Minister,
Members of E(PSP) and Sir Robert Armstrong.

Yours sincerely


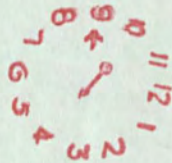
for PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

Post + Tels

Future of P. C. Pt 9



22 APR 1985

NDPM AT 17/4
CC NO

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie MP
Minister of State for Industry and
Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London SW1

17 April 1985

Dear Minister

POST OFFICE: TARGETS

Thank you for your letter of 19 March about PO targets. I agree with many of your proposals but also have a few reservations which I discuss below.

I support your intention to discontinue postal business targets and instead to publish separate financial and efficiency targets for Mails and Counters. I think there would be still further advantages if separate targets were combined with separate EFLs for the constituent businesses. Unless you can see any major objection I suggest that we proceed this way in this year's IFR.

Profit Target

I am content to go along with the level of profit target you propose for each of the next 3 years. You also suggest a review of this target. I do not necessarily disagree with your argument that the levels of profit consistent with the targets you will now be announcing may be difficult to reconcile with some of the principles in Cmnd 7131. I am broadly content for our officials to look at these issues but I have some observations and suggestions.

An immediate review could raise awkward issues of presentation. The profit target is intended to set a medium term planning framework. It would be seen as inconsistent with this intention and unco-ordinated to review the target with the objective of adjusting its level so early on in a new target period. These problems could be compounded because an adjustment to the profit target could have major consequences for the assumptions about volume growth behind the RUC target. That target too would need to be reviewed

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and possibly adjusted simultaneously.

This awkwardness arises because your target proposals have been made so close to the end of the target period. The new targets should now be announced but before we proceed with a review I should be interested in your proposals for managing these timing and presentational problems.

There could also be major public expenditure implications to your proposal. A level of profits consistent with Cmnd 7131 could lead indirectly to a significant and continuing increase in the Post Office's external financing requirements unless compensating adjustments, such as a substantial reduction in capital spending or an increased level of asset disposals, could be secured. It would be extremely difficult to accommodate substantially increased financing requirements with the current and prospective pressures on public expenditure totals. The review should consider how to reconcile the EFLs which we have agreed with the reduced profit target which you are advocating.

Finally, officials are due to consider during the summer the prospects for introducing private capital into the Post Office and the scope for an consequences of relaxing the postal monopoly. I should like your assurance that any review of the profit target will not impede or delay either these reviews or officials' consideration of the Post Office's Corporate Plan which is now due.

Performance Target

Your proposals for RUC reductions over the next three years are less demanding than the figures I mentioned to Norman Tebbit in last year's IFR. However, the differences are small and on the basis of your view that these targets are challenging and very stretching and, subject to the points below, I am prepared not to press you to seek still more demanding efficiency gains.

My first point concerns the annual sub targets. The overall targets are slightly less rigorous than I had originally hoped for and I consequently regard it as all the more important that the Post Office are given every encouragement to achieve them. The sub targets you propose allow Mails to postpone a significant proportion of the necessary efficiency savings until the final year of the target period. Requiring Mails to start delivering proportionately greater efficiency gains from the outset would reduce the risk which is inherent in your proposals of a last minute failure against the target. I suggest that the minimum annual sub target for Mails is increased to two per cent.

Secondly I am not convinced by your argument about rebasing the targets back to 1981-82. We are entering a new target period and in logic there is no reason to link this period back to an expired period. Moreover I

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see positive benefits in using the end of the expiring target period as the base. It avoids the need to incorporate in the calculations precise forecasts about outturn against the present targets and is consequently more certain. Nor am I convinced that there is ever a year which is not somewhat affected by one-off extraneous factors. For these reasons I hope you will agree to set 1984-85 as the base year without adjustment.

We should obviously aim to agree and announce these targets as soon as possible after they were due to come into effect. It is disappointing that you were only able to make proposals to me so near the end of the current target period and I hope you will not have any difficulties with the suggestions I have made.

I am copying this letter to the Prime Minister, E(NI) and Sir Robert Armstrong.

Yours sincerely

P. Rees

for PETER REES

[Approved by the Chief Secretary]

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POST + TELE A9

FUNNY

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17 APR 1985

CONFIDENTIAL



cc RITA's office pl.
 CCND
 NCPM
 AT
 17/4

Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

Geoffrey Pattie Esq MP
 Minister of State for Industry
 and Information Technology
 Department of Trade & Industry
 1 Victoria Street
 London SW1

15 April 1985

A large, stylized handwritten signature in black ink, appearing to read 'John Griffiths'.

MANAGING DIRECTOR OF GIROBANK

You wrote to me on 18 March about appointing a new Managing Director of Girobank on the Post Office Board.

I recognise that the issues concerning the future of Girobank are complex. I am also aware that it has taken some time to approach the point of reaching conclusions about privatisation and I am glad that Norman Tebbit expects to be able to present his paper very soon. I cannot however accept that this means we have to appoint a new Managing Director whilst all the options on privatisation remain open. Should the outcome of the current review be that Girobank is to remain within the public sector, which could easily involve constraining its role, we should be looking for an altogether different Managing Director from the kind of person needed to run a privatised National Girobank. I have no reason to doubt the competence of Girobank's present senior management; and with the part-time assistance of Mr Wainwright, I do not think there would be any danger if Girobank were to operate in the interim without a full-time Managing Director. The Bank of England agree with this.

It therefore remains my firm view that the appointment of a Managing Director should be considered once we have taken a decision on privatisation following your review. Once we have a clearer idea of Girobank's future, and hence the role of the Managing Director, we can then consider what salary arrangements might be appropriate.

I am copying this letter to the Prime Minister.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson'.

POST + TELS

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

12 April 1985

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

mf

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And Mums.

D Nigel.

POST OFFICE INDUSTRIAL RELATIONS

In my letter of 28 March, I explained the background to the industrial action which took place in the Post Office last week. A progress report and speaking notes were circulated to colleagues on 2 April. I am now able to report that negotiations between the Post Office and the Union of Communications Workers resumed on Tuesday and a satisfactory resolution of the dispute has now been achieved.

This is a satisfactory outcome: the use by the Post Office as to 1984 T.V. Act played a large part

*M
12/4*

2 The UCW has agreed to the unrestricted use of all letter sorting machinery, including the Optical Character Recognition machine at Mount Pleasant; a wider new technology agreement; and the introduction of work measurement and trials leading to work standards. In addition, the UCW Executive will recommend to its May conference acceptance of the principle of recruiting between twelve and twenty thousand part-time staff and additional casual labour, and the extension of the Mails productivity scheme to give one hundred per cent coverage. The Post Office will continue to table proposals for part-time posts up to a further 1000 on top of the proposals already put forward in sixty five offices up and down the country. These posts will not be filled until after the UCW conference but this was always the intention.

3 The cost to the Post Office is an initial lead-in payment of £100 per employee as part of a three-stage payment of £250 per employee. The initial payment is conditional upon the May conference accepting today's agreement and the balance of the £250 is conditional upon acceptance of a wider deal that removes opposition to part-time and casual staff and accepts the extension of the productivity scheme. Failure to endorse the initial part of the deal in May will lead to the £100 being recovered. In addition, implementation of the changes in working practices will lead to savings to the Post Office some of which will flow through into bonus payments under the existing scheme. There is no

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provision for changes to the working week at this stage but the full deal will allow a reduction of 1 hr as soon as local savings reach the point of funding this change.

4 I understand that the UCW Executive has decided to drop the proposed ballot of its members at Mount Pleasant. Such a ballot would now be unnecessary as the agreement covers the normal working of OCR machinery. However, the Executive has not yet made this known to its members at Mount Pleasant and this information should be treated as sensitive at this stage.

5 Finally, the settlement of this dispute opens the way for the Post Office to begin negotiations on the main pay settlement for UCW grades. The settlement date is 1 April. The Post Office has not yet formulated an opening offer but Sir Ronald Dearing is aware of the seven day rule. I understand, however, that the Post Office may well seek to contrive to link the main pay settlement to acceptance of the productivity package by the May conference.

6 I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

POST OFFICE
Future pl 9.

12 APR 1955

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COMMERCIAL IN CONFIDENCE

cc PHW 8202

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Heat 15/4

PRIME MINISTER

MERCURY: PROCUREMENT POLICY AND TELECOMMUNICATIONS

I mentioned to you my concern that in the field of Government procurement of telecommunications we are not yet sufficiently responsive to the existence of Mercury Communications. It has a crucial role as the single competitor to British Telecom. The company's success is an important aspect of both our competition and telecommunications policies.

2 Mercury is now making substantial progress in the installation of its fibre-optic "figure of eight" network. It is taking other steps to develop its systems and its services. It is nevertheless in a fragile position. Its customer base remains relatively small, partly because it will only command greater confidence with customers when it can demonstrate a significant revenue stream. In that context, I am anxious that Government Departments should do all they can, within the existing Treasury guidelines on public procurement, to give Mercury a fair chance to prove itself. I began preaching this message to colleagues at the end of 1983 and more recently Geoffrey Pattie has been corresponding with Peter Rees. But little has been achieved despite goodwill in Departments and CCTA actions. So far Mercury has total contracts with Government Departments worth only £31,570 per annum. I believe that this results in part from the inertia engendered by the previous monopoly environment.

3 Neither I nor Geoffrey Pattie would wish to see special treatment for Mercury. Indeed we have said in the British

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COMMERCIAL IN CONFIDENCE



COMMERCIAL IN CONFIDENCE

Telecom prospectus that the normal Treasury published guidelines will apply to telecommunications. But Departments need to be aware that procurement decisions in favour of Mercury may be justified, even though the initial cost is greater, if improved value for money can be expected in the longer term as a result of the establishment of vigorous competition.

4 The guidelines contain a significant amount of flexibility in this respect. What I am anxious to ensure is that colleagues fully appreciate the importance of that flexibility in the context of telecommunications procurement decisions. I am drawing the issue to your attention because although the recent correspondence between Geoffrey Pattie and Peter Rees on this subject, to which I have referred, revealed a common understanding of the problem, I would wish to see a more explicit recognition on the part of the Treasury that Departments should take full account of the broader effects of individual procurement decisions. Otherwise reluctance on the part of Departments to place orders with Mercury will continue or even be enhanced.

N T

4 April 1985

Department of Trade and Industry

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COMMERCIAL IN CONFIDENCE

Post & Telecom : Future R.D.



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9 APR 1985

COMMUNICATIONS

Postal Services

4.6 pm

The Secretary of State for Trade and Industry (Mr. Norman Tebbit): With permission, Mr. Speaker, I should like to make a statement about the possibility of disruption to postal services as a result of industrial action by members of the Union of Communications Workers.

The Post Office has been discussing with the UCW for several months a number of measures to improve productivity and provide a more reliable mails service. The need for improvement has been indicated over many years, most recently in the Monopolies and Mergers Commission report on the letters service, published in September last year.

Negotiations last weekend resulted in a failure to reach an agreement acceptable to both parties. Some UCW members subsequently refused to continue operating the optical character recognition machine at the Mount Pleasant sorting office yesterday and were suspended. That led to a walk-out by staff. I understand that, following an injunction granted to the Post Office in the High Court, the afternoon shift reported at 2 o'clock today, and the OCR machine is now operating normally.

Subject to certain derogations, the Post Office enjoys the exclusive privilege of providing a letters service in the United Kingdom. My right hon. Friend the Member for Leeds, North-East (Sir K. Joseph) the then Secretary of State for Industry told the House on 16 July 1980 that powers are available to remove the monopoly, either in a local area or nationally, and that those powers would be used in the event of industrial action within the Post Office that resulted in a cessation or serious decline in the quality of service. That remains the case.

Mr. John Smith (Monklands, East): Does not the Secretary of State realise that the settlement of the differences between the Post Office management and the UCW over quite difficult matters such as the proposed large increase in part-time workers and the use of OCR machines throughout the country can be satisfactorily achieved only by negotiation and a real attempt by both sides to reach an agreement? Is it not remarkable that in the statement that the right hon. Gentleman has chosen to make to the House today, at no stage did he refer to negotiations or wish the process of negotiation any success? Is the right hon. Gentleman not aware that at this very moment discussions are taking place between the executive of the UCW and the chairman of the Post Office? Would it not be better to encourage that attempt to settle the dispute rather than, at this delicate stage, to make a provocative and ill-judged threat to withdraw the Post Office monopoly?

Mr. Tebbit: I have made no threat whatever. There has been no provocation and nothing that has been done either by me or by the Post Office management has been ill-judged. I understand that negotiations have been resumed and I welcome that. I believe that it is best not to comment on those negotiations at this stage, but I hope that they will come to a fruitful conclusion.

Mr. Robert McCrindle (Brentwood and Ongar): As disputes of this kind are very difficult to resolve once they have started, will my right hon. Friend confirm that there is nothing to prevent ACAS intervening in advance of any

dispute if the parties are unable to reach agreement? To the extent that a dispute is possible, does my right hon. Friend agree that it is the Government's duty to allow and encourage the maximum movement of mail in this country? Is he satisfied that there are private sector companies ready and willing to do that?

Mr. Tebbit: My hon. Friend is right. ACAS is ever ready to offer assistance but it is up to the parties to agree on whether they wish to take advantage of such assistance. One of the most important aspects of the dispute is the fact that the Post Office has used the injunction procedure and thereby ended the industrial action. The question of suspension of the monopoly therefore does not arise at the moment as there is no problem with the post. Should the post be interfered with, I should, of course, have to consider the matter most carefully.

Mr. Chris Smith (Islington, South and Finsbury): Does not the Secretary of State realise the fears of the workers at Mount Pleasant sorting office in my constituency have been exacerbated by the management's provocative action in unilaterally introducing new technology and productivity measures? Does he agree that it is even more provocative for the Government now to be making implied threats about the future of the Post Office monopoly?

Mr. Tebbit: The hon. Gentleman refers to the introduction of new technology as though the machine in question had not already been working for a year.

"New technologies mean major changes in the way we work and how we live. In the Britain of the future, we will need a new flexibility in the way we work—with less hours at work, a positive approach to new technologies, a new priority to training and retraining throughout our working lives". The prose may be pretty turbid, but that is the kind of stuff being put out in the names of the Leader of the Opposition and a pop singer called Bragg.

Mr. Teddy Taylor (Southend, East): As the TUC is constantly telling the Government to encourage the cutting down of excess overtime so that more people can be taken from the ranks of the unemployed, will my right hon. Friend invite the TUC to support the Post Office, which is proposing exactly that by cutting overtime and employing more people at present out of work?

Mr. Tebbit: The formal view of the TUC was expressed in its paper presented to the March meeting of the National Economic Development Council. It said:

"Although in limited cases for short periods overtime can provide extra flexibility it rapidly becomes entrenched and inefficient."

We all agree with that, don't we?

Mr. John Ryman (Blyth Valley): Will the Secretary of State concentrate on the real issues in the dispute? Is not the truth of the matter that the Government are now pressuring Sir Ronald Dearing to bash the Post Office workers, just as they pressured Mr. MacGregor to bash the coal miners? Is the right hon. Gentleman aware that the Post Office union's conference takes place in six weeks' time and that if negotiations had been conducted with a bit more diplomacy and sensitivity these issues could have been amicably resolved? As it is, on 15 April part-time and casual workers are to be introduced without consultation or agreement with the unions. Will the Secretary of State use his goodwill to allow commonsense to prevail in the negotiations and restrain the chairman of the Post Office from taking such hostile measures?

Mr. Tebbit: I gather from the hon. Gentleman that there is some criticism of the chairman of the Post Office. I must confess that I would not differ from the view that Sir Ronald Dearing is superb, inventive, humorous, loyal—

Mr. Ryman: Like you?

Mr. Tebbit: Indeed. Those adjectives were applied to Sir Ronald Dearing by the right hon. Member for Manchester, Gorton (Mr. Kaufman) in his book, talking about the Civil Service. I am surprised that the hon. Member for Blyth Valley (Mr. Ryman) is critical.

As for provocation, the Post Office management and the UCW have been in negotiation for many months on many of these issues concerning productivity and working methods. Although a good deal of progress has been made, the hands of the UCW negotiators were tied by conference decisions about the extension of productivity agreements corporation-wide and the recruitment of part-time staff. The Post Office had hoped that the special delegate conference in early March would untie the union negotiators' hands, but the knots were firmly retied by very large majorities. In those circumstances, there seemed little point in waiting for the normal conference in May and every reason to press ahead with the introduction of arrangements which will benefit the staff and, above all, those who use the Post Office service. The Post Office is there for the public to use, not for people to play silly games in.

Mr. Neil Hamilton (Tatton): I welcome the news that there has been a return to work, but should not those who went on strike yesterday to preserve inefficient and high-cost services realise that no one is indispensable, as the United States air traffic controllers discovered when President Reagan sacked them? Although we welcome my right hon. Friend's cautious words about the Post Office monopoly and industrial action, as the Government are bent on deregulation is it not time to consider the matter on a long-term basis to see whether there is any justification for the monopoly?

Mr. Tebbit: I think that it is fairly clearly established that the Post Office monopoly of the letter post has benefits as well as disbenefits. If my hon. Friend feels that there are arguments about this as yet unrehearsed I am sure that he will give them a fair airing. Of course, if there are bouts of industrial action in the Post Office the balance will change, perhaps decisively.

Mr. Paddy Ashdown (Yeovil): We accept the case for introducing new technology and reducing overtime to achieve flexibility and to spread jobs, but does the right hon. Gentleman agree that a prolonged industrial dispute would lose all the benefits of those reforms? Does he accept that the key to solving the dispute may lie in assuring Post Office workers that productivity bonuses will go some way to reducing the loss of overtime earnings on a regular basis? Does he also agree that it would be foolish for the Government to convert the dispute into a battleground over the introduction of further privatisation?

Mr. Tebbit: The hon. Gentleman is absolutely right. No one who is sensible about these matters would want a dispute in the Post Office. That would damage the Post Office and the prospects for jobs in it. We all expect excessive overtime to be cut back so that more workers can be taken on. That is common sense. There is, of course,

the problem that some workers have become very reliant on long hours of overtime. I emphasise, however, Sir Ronald Dearing made it plain in a letter distributed to all Members of the House that 55 per cent. of the gains from these changes would fall into the hands of the Post Office workers. That is a fairly generous split.

Mr. Tim Smith (Beaconsfield): Bearing in the mind the success of private operators in providing a highly efficient letter service at very short notice in the last major Post Office dispute, will my right hon. Friend confirm that if there is a major dispute the monopoly will be lifted immediately, at the beginning of the dispute?

Mr. Tebbit: I think that it is much better not to jump to the conclusion that there will be a major dispute. We should work for a sensible solution. I have made it plain that I entirely stand by the words of my right hon. Friend the former Secretary of State which I quoted in my statement. Should there be a dispute which suspends or gravely damages the mail service, I shall make early and quick decisions about the suspension of the monopoly.

Mr. Harry Ewing (Falkirk, East): Is the Secretary of State not aware that all that prevented the UCW and the Post Office reaching agreement on Saturday night on the operation of the OCR machine was the fact that in recent days the Post Office has thrown into the discussion the need to employ part-time labour? Will the Secretary of State accept that there is a suspicion now that the Post Office—today, unfortunately, joined by the right hon. Gentleman—is trying to pre-empt the presentation by the executive of my union, the UCW, to the annual conference in Bournemouth in May, of a much more flexible approach?

The relaxation of the monopoly did not operate in the way suggested by the hon. Member for Beaconsfield (Mr. Smith). The cost of delivering a letter by using a private company was 10 times greater than the cost of a postage stamp. After the 1971 dispute ended, hundreds of thousands of letters were found in the possession of private companies and subsequently had to be delivered by the Post Office. I hope that the Secretary of State will not turn a grievance into a full-scale industrial dispute.

Mr. Tebbit: I am astonished that the hon. Gentleman, who has some connection with the union, should say that the issue of part-time workers was thrown in over the weekend. It has been under negotiation for months and months. Neither the Post Office nor I can stop the executive of the hon. Gentleman's union putting constructive proposals to the conference in May. Indeed, we were overjoyed at the thought that some constructive proposals might result from the conference in March. Some progress was made, but unfortunately not on the important issues of a corporation-wide productivity agreement and part-time staff.

Mr. Andrew MacKay (Berkshire, East): Is my right hon. Friend aware that customers—especially companies that took part in the recently published CBI forecast showing great economic recovery—will be delighted to learn that in the event of serious industrial action this essential national service will be maintained?

Mr. Tebbit: Certainly. If the Post Office will not, or is unable to, deliver the mail, it would be unpardonable for us to permit the service to cease when there are options available to us.

Gregor MacKenzie (Glasgow, Rutherglen): Will the Secretary of State accept that the sensible way of reaching a settlement of the dispute is to permit the chairman of the Post Office and the general secretary of the UCW to get on with the discussions by themselves? Will the right hon. Gentleman also accept that veiled threats of breaking the monopoly do nothing to calm the atmosphere so that the dispute may be settled?

Mr. Tebbit: I absolutely agree with the right hon. Gentleman. The best thing that we can do is to let the parties negotiate together. However, the hon. Gentleman describes as a veiled threat about the monopoly what he should regard as an assurance given to the consumer.

Mr. Peter Bruinvels (Leicester, East): Would my right hon. Friend accept that the action taken by workers at the Mount Pleasant office was nothing short of industrial sabotage? Will he warn the UCW that unless it co-operates properly and ensures that the post is delivered on time the Post Office's monopoly will be very much in question, and that the Post Office is a natural candidate for privatisation?

Mr. Tebbit: My hon. Friend expresses himself somewhat robustly. I am a moderate and quiet chap. I say only that if the Post Office cannot or will not operate the mail service there will be an increasingly strong case for allowing others, who can and will, to do so.

Mr. Ian Wrigglesworth (Stockton, South): Will the Secretary of State agree that industrial action is in no one's interests, particularly when we remember the damage done by the previous industrial dispute both to the Post Office and to its workers? Can the right hon. Gentleman tell the House what the position of Post Office workers will be if the productivity agreement is adopted? Will they be worse off? Will there be any redundancies?

Mr. Tebbit: I understand that Sir Ronald Dearing has assured the union that there is no question of redundancies arising from the agreement. Part-time workers will be taken on at normal rates of pay. They will in this sense be permanent members of staff, not casuals.

It is difficult to say what will happen to each individual's pay. Some Post Office employees currently work very long hours of overtime. I do not know whether in future they will have the opportunity to work quite such long hours of overtime, or whether the extra productivity payments would make up the difference. Those are matters for negotiation, and the parties should be allowed to get on with the negotiations and sort them out.

Mr. Tony Favell (Stockport): Is my right hon. Friend aware that about half the mail of the firm of solicitors of which I am a partner is delivered through the private enterprise system? We use the private system because it is much cheaper than the public system, and only when mail is delivered by private enterprise can we guarantee that it will reach its destination on the following day.

Mr. Tebbit: I note what my hon. Friend says, as I hope will those concerned in the Post Office. It must have been quite a shock to the Post Office to read the recent report of the Monopolies and Mergers Commission, which could not confidently say that the Post Office letter mail was being operated in the public interest.

Mr. Jeremy Corbyn (Islington, North): This morning I received, unsolicited and unenveloped, a seven-page letter from the chairman of the Post Office explaining his

side of the argument over Mount Pleasant. Did the Secretary of State authorise the distribution of that letter? If so, why did the Post Office not bother to put it in an envelope like every other item of correspondence that hon. Members receive? Will the right hon. Gentleman ensure that equal facilities are made available to the UCW to write to all hon. Members to explain the union's fears about the method of introduction of new technology, the threat to jobs, and the threat of post office closures implicit in the Government's strategy for the Post Office?

Mr. Tebbit: The ability of the UCW to write to hon. Members could only be threatened if industrial action prevented the mail from being delivered. I am therefore very glad that the industrial action has ended. I am sure that if the UCW wishes to write to hon. Members, the union knows the address and the form. Of course Sir Ronald Dearing did not have to ask my permission to write to hon. Members.

Several Hon. Members rose—

Mr. Speaker: Order. I thought that three hon. Members had risen. I will call those who have consistently been trying to catch my eye.

Mr. David Winnick (Walsall, North): Is the Secretary of State aware that so long as he heads the Ministry there is bound to be added anxiety and concern that the Post Office is being encouraged to pursue a policy of confrontation? When will the right hon. Gentleman understand that there is no effective substitute for negotiation between employers and trade unions without coercion?

Mr. Tebbit: For once, there is not much difference between the hon. Gentleman's view and my own. The right way to proceed is to get the parties together and to encourage them to negotiate and reach a constructive agreement that would be to the benefit, above all, of those who use the Post Office.

Mr. Kevin Barron (Rother Valley): If the Secretary of State implements his threat of breaking up the Post Office monopoly, can he guarantee to those who use the Post Office that there will be no increase in charges?

Mr. Tebbit: I have made no such threat. I have undertaken to the House that if mail deliveries are suspended I will give careful and early consideration to the means of maintaining the service to the public. That is an assurance to the public. It is a matter between the public and those who would offer the service. I do not think that the hon. Gentleman understands the real world; he has been in the Labour party for too long.

Mr. Nigel Spearing (Newham, South): Does the Secretary of State agree that the provocative manner in which the board and chairman of the Post Office have closed Crown and sub post offices, particularly in East and West Ham, bodes ill for the negotiations now in train? Will he have a look at the statement that he made concerning the optical machine now operating normally? Is the right hon. Gentleman aware that according to the information that I have received, there was an agreement to operate that machine experimentally, which has expired? If that is so, will he make a correction, or let me know if I am wrong?

Mr. Tebbit: The answer to the hon. Gentleman's first question is no. The answer to his second question is that

[Mr. Tebbit]

the machine is operating normally. It operates today in the way that it usually does. The letters go in, are read optically, and come out the other end. As I understand it, that is the normal way of operation.

Mr. Dave Nellist (Coventry, South-East): Is it not hypocritical for the Secretary of State to talk about the reliability of the service and its quality when the Post Office is closing Crown post offices and destroying local services, abrogating local and national agreements, and putting profit before public service? Should not the right hon. Gentleman have announced today that it was the responsibility of the management of the Post office to return to full consultation and negotiation with the UCW, before — if the angry mood of the Coventry postal workers is any guide — the dispute inevitably spreads?

Mr. Tebbit: I am sure that the hon. Gentleman will do his best to spread the dispute. But he should consider whether a refusal to operate the machinery effectively represents an ambition to put profit before service to the community. Many people would think so.

Mr. Bob McTaggart (Glasgow, Central): If the Secretary of State is concerned about giving a service to the community and preventing the hardship that is caused to many people through post office closures, will he use his good offices to instruct the Postmaster-General to cease the policy of sub post office closures? That policy is causing great hardship throughout the country.

Mr. Tebbit: The office of Postmaster-General was abolished even before the hon. Gentleman became a Member of Parliament. But the substantive point is that the proposed closures are subject to an extensive process of consultation. Not all the proposed closures are carried through, and I believe that the Post Office adopts an extremely responsible attitude towards its obligations in that respect.

Mr. Paddy Ashdown (Yeovil): On a point of order, Mr. Speaker. I apologise for delaying the House, but many Opposition Members were unable to hear the precise answer that the Secretary of State gave in response to the hon. Member for Islington, North (Mr. Corbyn). You will recall, Mr. Speaker, that the hon. Member for Islington, North asked whether the Secretary of State had given his permission for the chairman of the Post Office to circulate a letter. The Secretary of State either said he did, or he did not. We were unable to hear his reply. Could the Secretary of State clarify that point?

Mr. Tebbit: It may be for the convenience of the House if I make that point clear. I said that the chairman had no need or requirement to ask me for permission to circulate a letter. I did not give him permission to circulate. He did it entirely off his own bat.

English Channel (Fixed Link)

3.33 pm

The Secretary of State for Transport (Mr. Nicholas Ridley): I should like to make a statement about the Channel fixed link.

The House will know that in November 1984, I met the French Ministers responsible for transport to discuss the possibility of a fixed link across the English Channel. At that meeting we reaffirmed the willingness of the British and French Governments to take whatever steps might be necessary to facilitate the construction of a fixed link between the United Kingdom and France within the framework of the European transport network. We agreed that this project, for which essential political guarantees would be provided, should be financed without support from public funds or Government guarantees against commercial or technical risks and on the basis of conditions prevailing on the international financial markets.

We also agreed to establish a working group of officials of both Governments to draw up guidelines to potential promoters in order to give them a clear understanding of the requirements of the two Governments on, for example, safety and the environment, the undertakings that the two Governments would be prepared to give, and on any constraints affecting commercial exploitation. At the meeting on 29 November between my right hon. Friend the Prime Minister and the French President, these decisions were confirmed, and it was decided that officials would be instructed to report to Ministers by the end of February.

Officials delivered their report on 28 February, and on 20 March we held a further meeting with the French Ministers to agree the final texts of the guidelines and to decide certain further points. In particular, we agreed that the closing date for proposals would be 31 October 1985, and that the two Governments would aim to reach a decision around the end of the year, on which proposal, if any, they consider should be enabled to go ahead. We also agreed that we should begin contingency work now on those elements of the treaty which would be common to any form of link chosen.

I have placed copies of the guidelines—or, to give them their proper name, the "Invitation to Promoters"—in the Vote Office.

In saying this, I do not want hon. Members to think that we have prejudged the issues. When they have had time to study the guidelines, they will recognise my concern to ensure that there is adequate public consultation, that environmental, social and employment impacts are fully appreciated and that the financial conditions are fully met. All these matters will be carefully considered before the two Governments arrive at a decision.

I cannot yet tell whether a fixed link will be built across the Channel or not. What I can say is that the private sector now has a unique opportunity. We have reached full agreement with the French on the conditions which the promoters must meet. I wish the promoters well in this great endeavour.

Mrs. Gwyneth Dunwoody (Crewe and Nantwich): We welcome any suggestion of considerable investment in the infrastructure. Indeed, we have been asking the



JU258

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
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2 April 1985

Miss Janet Lewis-Jones
Private Secretary to the
Lord President of the Council
Privy Council Office
Whitehall
London SW1

Dear Janet,

POST OFFICE DISPUTE

I enclose a briefing note on aspects of the PO dispute. It does not try to deal fully with the more rapidly-moving aspects of the dispute, but emphasises the underlying issue of productivity.

We are not seeking opportunities for Ministers to speak on these matters at present.

I am copying this letter to the private secretaries to the Prime Minister, all Cabinet members, the Chief Whip, the Paymaster-General and to Sir Robert Armstrong.

Yours ever,
A. Lansley

ANDREW LANSLEY
Private Secretary

Enc



DRAFT NOTE FOR SECRETARY OF STATE TO CIRCULATE TO
COLLEAGUES

JU252

POST OFFICE

Line to Take

The Dispute: Essentially a matter for the Post Office, its workforce and their unions but, as I understand it, the dispute is about the need for increased productivity in the mail service. Productivity has improved in the last few years but this merely recovers ground lost in the 1970s, so that productivity today is no higher than it was 15 years ago.

- The MMC report published last September could not conclude that the Post Office was running the letter service in the public interest. It pointed to a number of areas where improvements were necessary in the interests of customers who benefit from a better and cheaper service; in the interests of the Post Office, and also in the interests of the workforce who benefit from higher rates of pay through productivity bonuses.
- The Post Office proposals would lead to the creation of an extra 12,000 (part-time) jobs. UCW resistance to this contrasts oddly with the TUC/Labour Party position on reducing overtime to create new job opportunities and it is inconsistent with the practice in many parts of the country. 500 part-timers employed in Manchester; only ten in Liverpool - but not one in London.
- The need for part-timers and casual staff is very much tied in with the attempts to increase productivity. The mails operation is one with peaks of workload in



the early morning and early evening. The availability of extra part-time staff will allow management to plan to meet those peaks without having to rely on expensive overtime and with the certainty that people will be available to handle the traffic; which is not currently the case with voluntary overtime. Again, the public benefits from a more reliable, more efficient service.

The Post Office is being entirely reasonable. It has said that it cannot go on deferring again and again a decision on this issue particularly when a delegate conference rejected an increase in part-time working less than a month ago. But, apart from a few cases in the pipeline, the Post Office has offered to suspend appointments (but not the processing of applications) until after the union's May conference to allow one final rethink. That is fair and reasonable.

The Optical Character Recognition machine at the heart of the dispute at Mount Pleasant is an example of ways in which the Post office can speed up the service while cutting its cost. Again it is about productivity and providing a reliable service and the Post office was simply taking the steps available to them, including the injunction under the 1984 Trade Union Act, to ensure that a tried and tested means of providing a more efficient service continues to be used.

Letter monopoly is a matter for Government, after consultation with Post Office. In the event of serious disruption Government would have no choice but to lift the monopoly, if the community is not to be damaged - which must be Government's first priority.



JU253

Background

Mails productivity has increased by 11% in the last three years but is still lower than in 1970. The Post Office believes that it has got as far as it can in improving productivity and efficiency within existing working practices and arrangements. The Post Office has therefore been seeking to negotiate a package of industrial relations reforms with the main union, the Union of Communication Workers (UCW) which would involve, among other things, the lifting of the embargo upon the full use of letter mechanisation equipment and on new technology: the introduction of a new productivity scheme that would apply to the entire Mails workforce; and the greater use of part-time and casual staff. These negotiations foundered as a result of mandates from previous UCW conferences and, in order to secure a sensible negotiating position, the UCW Executive called a special conference at the beginning of March. This conference moved the UCW a long way towards accepting changes that had been resisted for a number of years. However, it did not approve the introduction of a mandatory productivity scheme and, most importantly, it did not approve the introduction of more part-time and casual staff.

Latest position

The Post office and UCW held a number of meetings culminating in an eleven hour session on Saturday, 30 March. Agreement in principle was reached on all issues apart from part-time and casual staff. Without this, the Post Office is not prepared to settle and will proceed by executive action. The Post Office sought and obtained an injunction under the Trade Union Act 1984 on Monday 1 April restraining the UCW from instructing its members not to operate the Optical Character Recognition (OCR) machine at Mount Pleasant, in the absence of a secret ballot.



The machine ended its trial period at midnight last night and, in the absence of an agreement on the live use of OCR machines, the UCW would expect the machine not to be operated. The Post Office instructed staff to use the machine as normal at 4.00pm today. The staff refused and were suspended which led to a walk out. Other offices could take sympathy action but the dispute is likely to escalate in any case as mail is diverted from Mount Pleasant to neighbouring offices who will almost certainly black it. The Post Office will suspend staff in these circumstances and this will lead to further walk-outs. The postal service could come to a halt nationally in two or three days. The Executive Committee of the UCW meets tomorrow morning to decide tactics.

The letter monopoly

Ministers have made it clear to the UCW that, in the event of industrial action leading to a serious disruption to the service, the Government have a duty to ensure that industry, commerce and the general public have access to any available alternatives. Orders would be made and laid quickly to life the letter monopoly either locally or nationally.



SPEAKING NOTES

- Q Post Office heavy-handed/seeking confrontation. Should wait for outcome of UCW conference on 18 May and continue negotiations then.
- A. Post Office not seeking confrontation. Has been talking to the union for a number of years about improvements in working practices including covering peaks with part-timers rather than overtime. But UCW special conference at beginning of March rejected any negotiation on part-times by a massive majority. Even so, the Post Office has offered not to appoint any part-timers, apart from a few in the pipeline, until after the May Conference to allow a further re-think. For some reason, this is not acceptable to the union.
- Q Government forcing Post Office hand.
- A. No. Post Office knows improvements in postal service necessary. Recent MMC report pointed out deficiencies. Government looking to Post Office for speedy and positive implementation of MMC recommendation. But up to Post Office to secure improvement and introduce whatever changes in working practices it believes necessary.
- Q Postal service essential - should be no-strike agreement.
- A. No-strike agreement are just that - agreements between employer and employees. Up to Post Office and its union to consider whether such agreement would be appropriate/possible.



Q Post Office proposals will lead to loss of jobs.

A. Nonsense. The Post Office proposal would create an additional 12,000 part-time jobs. 50 million hours of overtime are worked in the Post Office recognises the value of some overtime working to give it the required flexibility which is why it is calling for only 12,000 extra part-timers.

Q (friendly) Doesn't the TUC have a policy on this?

A. I think that the TUC takes the view that less overtime should be worked so that more job opportunities can be created. So I assume that the TUC would support present Post Office moves.

Q. The letter monopoly.

A. The Government have a clear duty to ensure that industry, commerce and the general public have access to a letter service. The Post Office is granted the exclusive privilege of delivering letters in the UK but if it abuses that privilege, then the Government will take prompt action to ensure that alternative carriers are not prevented from offering their services.

Q. The problem with that is that it is not worth it unless a business can be allowed sufficient time to recover its initial costs. If you just lift the monopoly for the duration of the industrial action, alternative carriers may not emerge.



- A. Then we would have to look at that and I would not rule out the possibility of lifting the monopoly for say two years. We might learn some very interesting lessons during this time.
- Q. Post Office should be privatised. If postal workers prepared to hold the service to ransom the service should be opened up to free competition.
- A. Main question for Government is to ensure that the country enjoys an efficient and effective postal service. If action of postal workers prevents Post Office from providing this then Government has a duty to look to alternatives.
- Q. New technology will lead to loss of jobs.
- A. The OCR machine at Mount Pleasant has displaced 12 jobs. The Post Office sees no scope for more than 20 such machines nationally - about 250 job losses out of a mails business workforce of 120,000. There is certainly no question of redundancy.
- Q. Postal strikes should be outlawed.
- A. My Rt Hon Friend, Secretary of State for Employment has been giving thought to general question of strikes in essential services. Serious and far-reaching question. Post Office employees should be aware that their actions raise this question in respect of postal service and call



into question whether it is in the interests of the country for the Post Office to retain its monopoly privilege.

Q Postmen low paid/depend on overtime to make up low basic pay/Post Office merely looking to cut wages.

A. No. Post Office is pursuing objectives recommended by MMC that earning should depend more on incentive bonuses and less on overtime pay. Overtime working will continue but in a more reliable and structural way. Post Office looking for union agreement to a range of measures to ensure productivity improvement and reward workforce for improvements. Post Office believe that overall their package of proposals will mean net benefit to its staff.

Q Post Office forced to make economies [through wages cuts] by Government targets.

A. No. Post Office action is prompted by the need which it and the MMC recognise to improve performance.

Q Post Office and unions on verge of agreement over week-end until Post Office suddenly withdrew and deliberately raised temperature of dispute. This was on instructions from Government.

A. No. Government not party to the negotiations and any suggestion that Government manipulating Post Office



behind the scenes is totally wrong. The negotiations
broke down because the unions refused even to talk about
the question of part-timers.



10 DOWNING STREET

From the Principal Private Secretary

1 April 1985

The Prime Minister was very grateful for your note of 1 April and for sending her a copy of the explanatory note to Members of Parliament on the current industrial problems in the Post Office. The Prime Minister will find this very useful.

FEB

Sir Ronald Dearing, C.B.

3/4

The Post Office

From the Chairman
Sir Ronald Dearing CB

Post Office Headquarters
33 Grosvenor Place
LONDON
SW1X 1PX

Royal Mail
National Girobank

Telephone 01-235 8000

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

1 April 1985

Dear Prime Minister

In view of the seriousness of the industrial situation, I thought an explanatory note to Members of Parliament and the more politically active Members of the Lords would be helpful.

I enclose a copy of the letter which has been sent today.

I am also sending a copy to the Chief Whip.

Yours sincerely
Sir Ronald Dearing

01 APR 1985

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To: All Members of Parliament

1st April 1985

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2/4

THE POST OFFICE - THE ISSUES

You will have seen press comments and may have heard interviews on the radio and television about disruption to Postal services, and I thought I ought to write to all Members to advise them of the issues.

These go back for many decades, but were brought sharply into focus last year in a report by the Monopolies and Mergers Commission on the Postal Service. Following publication of the Report, the Post Office began a major negotiation with the Union of Communication Workers on a whole package of measures designed to improve the performance of the Post Office in terms of cost and quality of service and to share the benefits with postmen through productivity schemes.

Because various Conference decisions prevented the Union leadership from negotiating freely on these proposals a special Conference was held early in March at which they sought authority to negotiate the package.

The Conference agreed that the Union leaders could negotiate on many issues, but refused by a majority of 5 to 1 to give authority on three matters of central importance. These are:

1. An extension to the use of part-time staff.
2. The use of casual workers to help during pressure periods, notably during the summer holidays when many staff are away.
3. A full national take-up of a productivity scheme which has been in operation since 1980 but which presently covers only 56% of eligible staff.

I thought you would wish to know why the Post Office is not prepared to let these issues lapse even though on other matters, agreement is not in doubt.

1. Part-timers

We currently have only 8,600 part-time postmen out of a labour force of 120,000 and we want to increase this number by between 12,000 and 20,000.

At present we are much too reliant on overtime which is often excessive, expensive, and since it is voluntary, unreliable. We want to reduce this dependence without depriving staff of the opportunity to supplement their income by doing reasonable amounts of overtime. We have promised that there will be no compulsory redundancy from the measures we want to introduce and we are prepared to give 55% of the financial savings we get from increasing part-timers to the staff. Given that there are two tremendous peaks of work each day - in the morning on deliveries and in the evening when the bulk of mail is being sorted, more part-time staff are essential in order to enable us to handle the work more efficiently.

2. Casuals

We want to use casual staff to help with peaks of traffic and to provide cover during the summer holiday period. Casual staff have long been used at Christmas successfully and there would be benefits to our staff in that this would give them greater choice of when to take their holidays and, again, they would get 55% of any savings.

3. National Extension of Productivity Scheme

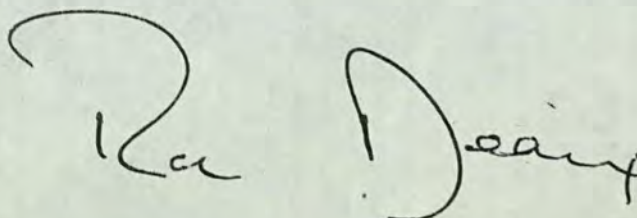
We have a productivity scheme for rank and file postal staff which provides average bonuses of £14 a week for postmen and £20 for postmen higher grade for those staff in it. We see scope for considerable savings at all offices, and especially those that have so far refused to come into the scheme. We have again promised no compulsory redundancy and we believe that since increased efficiency enables us to give a reliable service at realistic prices it will give customers better value for money.

The steps we want to take now have been recommended again and again in the past by independent review bodies and I have annexed extracts from their reports calling attention to the need for part-timers and casuals and criticising the Post Office for not taking the necessary action. We believe that the potential savings in costs on these two items could be very substantial.

There are real opportunities for the Post Office and its staff. But there is a great deal of leeway to make up, for the progress we have made in recent years has been no more than sufficient to restore Post Office productivity to what it was at the end of the 1960s. No one can be satisfied with that kind of achievement.

We have striven hard over many months to conclude an agreement with our Union, but we must make progress on these fundamental issues even if there is no agreement. This will be a matter of very personal regret, because confrontation is a wasteful and unproductive way of making progress. There does though come a time when after lengthy effort to secure a negotiated settlement, we must take action to ensure the long term health of the Postal service, and give better service to the customer, even though it is at the cost of short-term disruption.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Rae Deary". The signature is written in dark ink and is positioned below the typed name "Rae Deary".

1 Part-timers

A Union Conference decided in 1978 that it would allow no extension of the then existing number of part-timers (although this has in fact grown by 250 since then). That decision has now been confirmed by a UCW Conference in March, leaving us with 8,600 part-time postmen out of a labour force of some 120,000 (postmen and postmen higher grade).

The Post Office wants to increase the number of part-timers, probably by somewhere between 12,000 and 20,000. These numbers are however very approximate and the actual number will only be determined within each office by careful evaluation of the best way of running that office, in terms of cost and reliable service.

We need part-timers to help meet peaks of work more economically and to reduce our dependence on overtime. The amount of overtime being done by postal grades at present amounts to 56 million hours a year which is the equivalent of 56,000 part-timers. The level of overtime is increasing quite sharply.

We must reduce our dependence on this voluntary overtime if we are to provide a reliable service. This is not to say that we want to deprive postmen of the opportunity to supplement their income by doing reasonable amounts of overtime. But for the postmen and postmen higher grade who do any overtime at all, the average is nearly 14 hours a week, and 10% of them are doing 20 hours or more. There is therefore scope for real reductions in overtime working by those who are doing too much, while still providing the opportunities for reasonable amounts of overtime.

Our objective is not simply to reduce overtime - but to staff flexibly to meet the needs of the peaks of work - which mean that some full time jobs should really be part-time.

We have assured our staff that there will be no compulsory redundancy as the result of introducing part-timers, or any of the other measures we have in mind, providing of course that staff will accept reasonable re-training and where necessary other jobs in or around the offices where they work. We have also made it clear that we are prepared to share the financial savings which come through increasing the number of part-timers, with staff in the offices where the changes take place, with the workers share being 55% of the total savings.

Apart from the need to do this to make the business more efficient, taking on part-timers helps provide opportunities for people to get jobs. Although these will be part-time, we have given a clear undertaking to our Unions that such staff would always be considered for full time appointments as vacancies arise. We have also made clear that we are prepared to offer part-time jobs to our staff who become eligible for a Post Office pension at age 60 but cannot afford to retire, so that these staff can cover the period until they become eligible for the State retirement pension.

There is no logic in the present position on part-timers. In the Liverpool office for example there are only 10 part-timers, whereas in the comparable Manchester office there are nearly 500. In the North

East of England 20% of our postmen force are part-timers, while in Inner London, where our quality of service and productivity problems are greatest, there are none.

Part timers are not everything, but in the majority of offices the nature of our work is such that part-timers would enable us to improve considerably in costs and service reliability.

2. Casuals

The employment of casuals would enable us to safeguard quality of service during the summer holiday period, and allow our staff to take their holidays more in accordance with their own and their family's wishes.

There is no question of casuals or part-timers de-skilling the postmen's operation, as is feared. They do not do so at Christmas, nor do the existing 8,600 part-timers de-skill Post Office jobs where they are employed at present. Quite often they are used on the simpler tasks, although there will be occasions when they might be used for a specialist skilled job to supplement normal resources against peaks.

3. National Extension of the Productivity Scheme

Our productivity scheme for postmen and postmen higher grade is currently providing average bonuses of £14 for postmen and £20 for postmen higher grade who are in the scheme.

It is a locally based scheme and the scope for productivity savings, and therefore the size of bonuses, varies between offices. There may be a few offices where the arrangements are so good and the productivity so high that there is no scope at all for doing better. But these are very few. In the great majority of offices that have refused so far to come into the scheme there is undoubted scope for improvement, and in some of them the scope is very considerable indeed.

Once again we are prepared to guarantee against any compulsory redundancies arising from new staff coming into the scheme.

Whilst it could lead to a few less jobs overall in the Post Office for a short period, we have during the last three years secured an increase of 10% in total business. This means that in spite of continued productivity increases we have increased the numbers employed.

4. Postmen's Pay

Attention has been drawn to the possible implications of reduced overtime on postmen's earnings and the fact that their basic pay is £101 with postmen higher grade getting £116. But only 4% of postmen are on this basic grade pay and average earnings in the provinces are £160 for postmen and £202 for postmen higher grade (£190 and £229 in London). An hour's lost overtime would cost a postman £3.50 and we believe our total package could be worth another £7 to £14 a week for him through a share of the benefits from improved productivity and cost savings.

EXTRACTS FROM INDEPENDENT ENQUIRIES

HARDMAN REPORT 1971

Para 6.40

"The more extensive use of part-time and women workers in areas of recruitment difficulty and the spreading of peak loads to off-peak periods which we discuss in other sections of the report could supplement the productivity drive in reducing overtime from the present excessive levels."

CARTER REPORT 1977

Para 10.12

"Full-time postmen, however, no longer work split shifts; so the postmen's day, whether it includes the morning or the evening peak, will consist of a period of intensive work followed or preceded by a much slacker period. The system must be staffed for the peaks, and therefore expensively over-staffed for the period in between. One solution to this problem would be to supplement staff in the peak periods by the use of part-timers."

"Other means of improving the workload must of course be exploited, but we consider that the more extensive use of part-time workers in peak periods should be given proper re-examination."

MONOPOLIES AND MERGERS COMMISSION REPORT ON INNER LONDON AREA 1980

Paras 8.21 - 8.26

8.21 Part-time staff, ie those working regularly for less than a full day, have been employed by the Post Office for many years and currently there are some 8,200 in the United Kingdom of whom some 7,000 are Auxiliary Postmen or other staff employed mainly in rural areas on delivery duties. Casual and seasonal staff are employed at the Christmas peak period and in the summer holiday season.

8.22 The employment of both part-time and casual staff has been opposed by the UPW for many years on the following grounds: it reduces demands for full-time employees, it depresses wages by weakening union bargaining power; it does not supply the skill required for postal operations, and it does not fit the need for 24-hour working coverage in Inner London. This attitude is particularly strong in London and as a result since 1975 there have been no part-time staff in the LPR (Inner Area) and seasonal staff have for the past few years been employed only at Christmas.

8.23 The Post Office considers that the employment of seasonal staff in London in the summer staff holiday season when there is also an increase in incoming foreign mail, especially postcards, is essential to efficient and economic operation.

8.24 We accept the Post Office's view and consider that the employment of temporary staff in the summer would make a major contribution to preventing a repetition of the deterioration in quality of service which occurred last summer and to a lesser extent in 1978. We note the agreement with the UPW Executive to allow use of seasonal staff in 1980, and hope it will be endorsed by the UPW Conference, applied at local level in London and extended to other years.

8.25 The UPW's resistance to the employment of part-time staff in Central London appears to be strengthened by the belief that because of the cost and travelling time involved the only part-time labour available for work at the peak evening hours when it is most required would consist of persons wishing to add to their incomes by part-time employment after a full day's work in some other occupation. We believe that there may well be other sources of part-time labour and that part-time employees could make a valuable contribution to the efficient handling of mail particularly in sorting operations at evening peak periods. The incidence of traffic in central sorting offices between 16.00 and 22.00 is such that in our view it can only be handled efficiently by additional manning at peak hours. Present arrangements either fail to meet this requirement or result in over-manning before or after the peak.

8.26 More generally we believe that it would be greatly in the long term interests of the Post Office and UPW members if, particularly in the short term and in Central London, greater use were made of temporary staff

MONOPOLIES AND MERGERS COMMISSION 1984

Para 6.30

As substitutes for postmen on leave, casuals can help sustain the reliability of the service, particularly when used at peak times, and provide scope to improve the leave arrangements themselves and contain overtime. Their use also offers the opportunity to assess the suitability of candidates for full-time employment.

Para 6.27

In our ILLP report we recommended that in Inner London use should be made of part-time staff specifically to cover the evening peak in the sorting office, but this has not taken place.

Para 9.47

The Post Office needs a more systematic approach to the matching of manpower to workload, with greater use of industrial engineering techniques for the establishment of work standards and more refinement in the determination of the optimum proportion of overtime and part-time staff to the total workforce.

Para 9.56 and Rec 70

The Post Office should keep its recruitment and promotion policies under review and should be prepared to consider such possibilities as direct recruitment of PHGs for mechanised sorting work In relation to these matters the Post Office must carry out a systematic assessment of the content of jobs, the aptitudes required and how the people best suited at each level can be found and trained. Additionally there should be a continued effort to emphasise the merit aspects of promotion as opposed to the seniority tradition.



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JU215

Secretary of State for Trade and Industry

28 March 1985

SECRETRt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

N.B. P.M.

D. Nigel,

POST OFFICE: INDUSTRIAL RELATIONS

In my letter of 18 March, I explained the background to current moves by Post Office management to force through changes in working practices which could lead to confrontation with the UCW. I saw Sir Ronald Dearing on Tuesday when he indicated that industrial action is highly probable from next Monday but if not next week, then from soon after Easter.

The Post Office has held a series of negotiations with the UCW following the special conference which was held on 4 - 6 March. The UCW seems willing to reach agreement on a number of important issues including the full use of mechanised sorting equipment and newer technology and the introduction of a proper system of work measurement, work standards and work revision procedures within the context of a productivity deal. However, the union leadership was not freed by its conference to negotiate on the introduction of more part-time and casual staff; the special conference rejected proposals from the leadership on this point. The union was also blocked at the conference from negotiating a compulsory national extension of the existing productivity scheme which currently covers rather more than half of the postal grades.

Negotiations are continuing this week, against a deadline the Post Office has set for their completion by Friday. At this point, while the union is in the market for a major deal in many areas, and is feeling for a way out of the conference embargo on a national extension of the existing productivity scheme, there has been no progress in the critical case of part-timers and casuals. The Post Office intends to push that. It is in the market for a deal covering whatever can be agreed, but is not prepared to drop the part-timers issue, and unless contrary to expectation the union can find a way out of its blind alley, that issue will be pursued through procedure, office by office, after Easter, probably leading to confrontation on a national scale within a month.

SECRET



SECRET

Sir Ronald told me that the UCW had been given notice that the Post Office intended to implement change by executive action in the absence of a negotiated agreement. The first conflict could occur on Monday 1 April at Mount Pleasant - the largest office in the country. An Optical Character Recognition (OCR) machine has been on trial at Mount Pleasant and the trial is due to end on 31 March. In the absence of an agreement on the conditions for live use of OCR machines, the UCW would expect the machine not to operate after 31 March. The Post Office will not switch off and will suspend anyone refusing to operate the machine. This could quickly lead to mass suspension or a walk-out by the Mount Pleasant workforce. The Post office thinks the union could be making a tactical error if it chose confrontation on that particular issue but it could happen, and if so escalation to other offices is likely to be swift.

Sir Ronald told me that he was clear that in the event of a dispute his tactic had to be to escalate it in order to deny the UCW the weapon of selective (and, for the union, inexpensive) guerrilla action. If there is a walk-out at Mount Pleasant on Monday or at other offices subsequently, the work will be diverted to neighbouring offices where it is likely to be blacked. This will lead to further suspensions and walk-outs so that there is likely to be a national stoppage quite quickly.

It is not clear at this stage to what degree Post Office counters or Girobank will be affected. Counter staff are represented by the UCW and are already taking intermittent industrial action as part of a campaign against Crown office closures. (Many offices were on strike on Tuesday afternoon). Sub-post offices are unlikely to be affected.

There are some 200 UCW staff at Girobank but they are not in the front line in the issues in dispute. Sympathy action by the National Communications Union (formerly the POEU) is more than possible, however, particularly following the disclosure of a stolen Post Office document which speculated on a 50 per cent reduction in the workforce in some important areas over the next few years. This could be serious for Girobank, as there would be sympathy action by the Girobank Bootle branch of the Clerical Group of the NCU (formerly CPSA) which has an influential Militant Tendency group. But there is some comfort in the knowledge that Girobank staff pulled back from the brink last year and that the issue of part-timers is unlikely to have much impact in a business which has agreed to significant increases in part-time employment over the last two years.

In discussion with Sir Ronald, I emphasised the importance of ensuring that the right messages are put out in the media and suggested that he should be taking action now to brief industrial

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SECRET

correspondents and leader writers so that he would reduce the possibility at least of ill-informed comment. There has been some press coverage already and the Board Member for Personnel and Industrial Relations, Ken Young, has been in the forefront of these. It is Sir Ronald's intention to take over this role himself if there is industrial action.

We also discussed whether there was any useful role that the Government could overtly play and agreed that, at this stage, it would not be helpful for Ministers to become involved. The Government have a duty to keep the letter monopoly under review, however, and we have been presented with an opportunity of making our position clear to the UCW by virtue of a letter from the union's General Secretary, Alan Tuffin, to Geoffrey Pattie giving the UCW version of events. We are using that opportunity to ensure that the UCW leadership is in no doubt that the monopoly will be lifted in the event of industrial action leading to serious disruption and that this can be applied locally as well as nationally.

Clearly, this is a confrontation that the Post Office must win and Sir Ronald knows that he has my support for the action that he is proposing to take. But I hope that it will prove possible to secure the implementation of those necessary measures without destroying the position of Tuffin. He is essentially a moderate voice at the TUC and can be a useful advocate of a more sensible and realistic approach by the wider trade union movement. But he is clumsy and has already had to be rescued on a few occasions from difficult situations that he has himself contrived and this objective is very much secondary to the main task of establishing that the Post Office board has the right to manage the business effectively and efficiently.

I will write again the light of developments.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

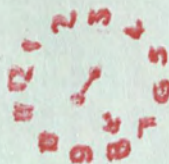
NORMAN TEBBIT

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FUTURE

28 MAR 1967



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

NBPMW

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

19 March 1985

Dear Peter

POSTAL BUSINESS TARGETS

As you will be aware, the current financial target and performance aim for the postal business expire at the end of this financial year and I have been considering replacement targets to run from 1985/86.

I am proposing that the time has now come to dispense with postal business targets and move to separate targets for each of Mails and Counters.

Profit

You discussed profit figures for the postal business with Norman Tebbit in the course of last year's IFR bilateral. Agreed numbers were subsequently published in the Public Expenditure White Paper. These represent a return, for EFL purposes, of 4.5% on turnover in each of the three years. In my letter of 25 February on Girobank targets, I argued that it would be unacceptable to set formal financial objectives which were inconsistent with the IFR numbers and that to do so would leave us vulnerable to criticism from the PAC. The same point applies to these targets.

We are in fact also vulnerable to criticism because the postal business profit target is much too high and is now wholly unrelated to the principles set out in Cmnd 7131. 4.5% on turnover represents some 8-10% return on capital employed and is around twice as high as would be suggested by the application of the required rate of return approach advocated in the 1978 White Paper. There are therefore strong resource allocation arguments in favour of a much lower target.

MA2/MA2AAH



The precise quantification of the appropriate profit target can only be determined after detailed study which will require major inputs from our economic advisers. I would therefore propose that our officials should begin such a study immediately, in consultation with the Post Office, with a view to reporting to us by, say, the end of June. This would enable a considered view to be taken in time to use appropriate numbers in this year's IFR. In the meantime, I would propose to set a formal financial objective of 4.5% on turnover for each of Mails and Counters for each of the next three years. This will continue to be on a current cost basis and will be pre-tax and after interest.

Performance Aim

Our officials held discussions with the Post Office last year on the scope for efficiency improvement and, following further consultation with the Post Office, I have concluded that it would be right to set a target for a reduction in real unit costs of 7½% over the next three years for Mails and 6½% for Counters. My officials have sent yours a detailed note setting out the key assumptions behind this conclusion.

The Post Office has suggested that there are advantages in retaining the 1981/82 base for the new target and I am persuaded that this would be sensible. It aids simplicity. The alternative base year, 1984/85, is exceptional for three reasons. For Post Office accounting purposes, it is a 53-week year; Mails figures are inflated by the European Elections and Counters figures are heavily distorted as a result of the DHSS dispute. Adjustments would be necessary to the base numbers to provide a more realistic assessment of performance and this would lose some of the benefits of simplicity. I have it in mind to use the accounts directions to require a reconciliation of RUC performance to the published accounts for 1985/86 onwards (this is being done for 1985/86 for profit and EFL) and again, simplicity is a key objective and is aided by a 1981/82 base.

The latest forecast for RUC outturn for the three years to 1984/85 (after eliminating the special factors mentioned above) is 6% for Mails and 3.5% for Counters. Compounding the improvement over the past three years by the targets which I am suggesting for the next three years produces figures of 13.1% for Mails and 9.6% for Counters on a 1981/82 base. I am therefore proposing to set a new target for the Mails business to reduce real unit costs by 13% in the six years to 1987/88, and for a reduction in Counters' real unit costs of 10% over the same period.

M12/M12AES



Annual Sub-targets

I regard it as important that we should expect some minimum improvement each year. However, it is an accepted White Paper principle that targets should be medium-term to allow the business to plan ahead and to allow for schemes where costs might be incurred early in the target period which bring benefits by the end of the period. I am therefore intending to specify a minimum of 1.5% RUC improvement in any one year.

In conclusion, I would say that I believe that the proposed RUC targets are very stretching. Performance against the present target has been aided by the benefit of successive national insurance surcharge reductions worth nearly 2% to the postal business RUC. I am therefore proposing significantly higher targets over the next three years. These include assumptions on pay settlements and productivity improvements that will see unit labour costs falling by 7-8% in real terms for the Mails business and by 4-5% for Counters. I believe that we must maintain the pressure for substantial efficiency improvements within the businesses including the major issues discussed at the recent UCW conference and including the continued critical look at the Counters network. The targets are, I believe, set at a level that depends on a large number of necessary measures being implemented and there is a risk that the targets might not be met - particularly if there is continued obstruction from the Post Office unions. But clearly we should not set targets that legitimise union resistance to improved efficiency. I hope that you agree to my proposals and that you will indicate this in time for an announcement this month - to avoid the embarrassment of announcing targets once the target period has begun.

I am copying this letter to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

GEOFFREY PATTIE

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19 MAR 1965

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CF.
PL cc to
RTA's office.

Mark 10 DOWNING STREET

~~Pethick~~ Thank you. I suggest you send a copy to Sir Robert Armstrong, but otherwise leave to the Treasury, as you say.

I think you ought to see ^{FERB} this. 20.3.

It has not been copied to RTA.

Clearly there is some danger of potential candidates overbidding in the wake of Levene, and so far

those of the shortlist have been selected by Sir Ronald Peering.

That may ^{partly} explain the sums being asked for, despite what Mr Pethick says at the end of his letter.

Presumably we leave the Chancellor to deal further?

MTA 18/3

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-WCF 18/3

DEPARTMENT OF TRADE AND INDUSTRY
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LONDON SW1H 0ET

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From the Minister of State
for Industry and Information Technology

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

18 March 1985

Dear Nigel

GIROBANK

We corresponded towards the end of last year about the need to find a successor to Mr Sam Wainwright as the Managing Director of the National Girobank. In your letter of 27 November you said you were unwilling to take a view on this appointment until we were clearer about the prospects for privatising Girobank, and you remained to be convinced that a salary as high as £70-80,000 would prove to be appropriate.

As Norman Tebbit has recently told you, we are making good progress with our review of the privatisation possibilities for Girobank and we expect to be able to let you know our conclusions around Easter. The main issues are by no means straightforward and have required a lot of detailed examination. For example, a privatised Girobank would still need for the foreseeable future to use the Post Office's counters as its main means of conducting business with the public; equally the counters operation would need to retain Girobank's business if it was to remain viable without a further massive programme of Crown and sub-office closures. The long-term relationship between Girobank and the Post Office would have to be spelt out in a formal contract and we have to consider whether such an arrangement would be acceptable in terms of competition policy and our restrictive practices legislation.

We must also handle the industrial relations aspects of privatisation with great care. The Militant Tendency and their supporters have built up a strong position in the trade unions at the main Girobank centre in Bootle. We cannot assume that they would necessarily stop short of destroying Girobank as part of their political opposition to our privatisation programme, nor, unfortunately, that they would be unable to influence many of the workforce to follow them regardless of the consequences for their

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jobs. Confidence is, of course, the essence of a banking operation and, as was made clear at the time of the pay dispute last autumn, even a short interruption of normal working at Bootle would cause Girobank a disastrous loss of its most important customers.

I mention these points at this stage simply to indicate to you that privatisation of Girobank is a more complex problem than it may appear at first sight and necessarily involves a good deal of detailed work, which takes time.

Meanwhile, Mr Wainwright is now on the point of retiring from the Girobank. Although he will remain on the Post Office Board and supervise Girobank's affairs on a one-day-a-week basis, Sir Ronald Dearing regards this as only a stop-gap arrangement and is pressing us to reach an early decision on a successor. Strictly speaking, the choice of a new Managing Director, Girobank, is one for the Post Office Board to make and our approval is required only for the appointment of whoever is selected as a member of the Board itself; but Sir Ronald is anxious to co-operate closely with us in this decision. He has sought the advice of headhunters and has let us have a short-list of four candidates, all of whom he believes could be capable of providing the necessary leadership to Girobank and steering it through the process of privatisation, if that proves to be our chosen course. In his order of preference, this short-list is:

- 1 Mr Malcolm Williamson, aged 46, currently Regional General Manager (London) with Barclays Bank.
- 2 Mr Fabian Samengo-Turner, aged 54, currently Director (Southern Europe) with Citibank.
- 3 Mr Daniel Hodson, aged 41, currently Finance Director of Unigate and a non-executive member of the Post Office Board (formerly with Chase Manhattan).
- 4 Mr David Somerset, aged 54, currently Chief Cashier at the Bank of England.

I must say that I sympathise with Sir Ronald's wish for an early appointment to be made. Girobank operates in the highly competitive and swiftly changing financial services market and irrespective of whether it is to be privatised or not it will need firm and skilful direction if it is to continue to be successful. A prolonged interregnum would almost certainly cause a serious loss of momentum and damage future prospects. If an early appointment was to be made it would naturally have to be on the basis that all our options on privatisation remained open and that we would expect a new Managing Director to co-operate fully in whatever policy we eventually decided to pursue. I doubt whether that would cause difficulty with any of the short-listed candidates.

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I should therefore like to make arrangements soon to meet Mr Williamson (and possibly others on the short-list) with the aim of making a decision on Mr Wainwright's successor as soon as possible. You should be aware, however, that the advice we had earlier been given by the Bank of England about the level of salary likely to be necessary to attract suitable candidates for this post has been borne out by the results of the headhunters' search. Mr Williamson's current earnings with Barclays are about £65,000 a year and he has said that if he was to be persuaded to give up his assured prospects there for the riskier, if more challenging, Girobank job, he would expect us to offer £75,000-£80,000. Mr Samengo-Turner's current remuneration package is worth the equivalent of over £100,000 a year and he has made it clear that he would not be interested in the Girobank post unless a salary of at least £95,000 was available. No doubt there would be some scope for negotiation on these figures, but if I am to begin discussions with any of the short-listed candidates I should need your authority to offer a salary of up to £75,000 if this proved necessary to secure the best man for the job. Sir Ronald has assured me that he would regard this as a unique appointment and would not expect the salary to set any kind of precedent for the next review of his own salary or those of other Board members.

I am sending a copy of this letter to the Prime Minister.

GEOFFREY PATTIE

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118 MAR 1985

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TOTAL COPIES 22

COPY No. 2 SECRET

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DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

18 March 1985

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

NR PM

D. Nigel,

POST OFFICE: INDUSTRIAL RELATIONS

In his letter of 19 February, Geoffrey Pattie notified you and colleagues of the UCW special conference which took place last week (4-6 March) to consider a negotiating mandate for a package comprising the removal of restrictive working practices in exchange for improved conditions of service. Geoffrey dined with the Post Office Board in the week before the Conference and made it clear that, while we accept that Post Office management should be prepared to pay a small price for industrial relations peace, there would be strong backing from the Government for firm resistance to industrial action, by the UCW or any other Post Office union, taken in furtherance of unreasonable demands over conditions of service or pay. Geoffrey made it clear that we were aware of the potential consequences of such action but that there should be no doubt in the minds of the Board that the Government were prepared to accept such consequences as a necessary price for sensible industrial relations in the Post Office.

2 With two exceptions, the Conference agreed to the Executive Council's recommendations to lift previous mandates that were blocking meaningful negotiations. In particular, the Conference agreed to negotiations that could lift the embargo on the use of letter mechanisation equipment and on the introduction of new technology. The exceptions were, however, in the key areas of the introduction of more part-time and casual staff and on the move from a voluntary to a mandatory productivity scheme for Mails Staff. Because it is very unlikely that proper work measurement can be introduced by agreement in offices not covered by the productivity scheme, the decisions on these two questions effectively undermine the value of the industrial relations package which the Post Office had hoped to negotiate.

3 The Post Office is currently considering its position and will be holding discussions with the UCW.

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4 I hope to see Sir Ronald Dearing after this, to discuss the Post Office reaction, and I will write to you again following that meeting.

5 I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', written in a cursive style.

NORMAN TEBBIT

JH5AUN

SECRET

19 MA.



CONFIDENTIAL



From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
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cc. PS/SOS
PS/Lord Lucas
PS/Sir Brian Hayes
Mr Croft
Mr Leeming
Mr Wright
Mr Knox IDU/ASD
Mr Butcher SPF
Mr Wells IDU/ASD
Mr Parsons
(on file)

19 February 1985

Dear Nigel

POST OFFICE PAY AND INDUSTRIAL RELATIONS

I discussed the question of the main UCW pay settlement with Sir Ronald Dearing when he came to see me recently. The settlement date is 1 April and negotiations with other Post Office unions tend to await developments in the UCW negotiations.

I stressed the importance that we attach to having seven days' notice of any offer that he intends to make and went on to argue that he should be looking for an opening offer of no more than 3 per cent and an eventual settlement well below the 4.9 per cent of last year. He agreed to come back for a further discussion on his negotiating strategy when he was closer to beginning negotiations on the main pay settlement. But he said that he had not turned his mind to this question in advance of a UCW Special Conference scheduled for 4-6 March which will discuss a major package of industrial relations reform.

The MMC, in its report on the letter post services published last September, identified a number of areas where it was essential for the Post Office to make progress in removing restrictive union practices. The Post Office had agreed with the UCW in the course of last year's pay round that they would hold discussions on the removal of these restrictions and on a number of items which the union wished to raise with management. These negotiations took place in the autumn but the UCW were unable to make progress in the face of binding conference decisions and the Executive are therefore holding the forthcoming special conference to seek approval for a more realistic negotiating position.

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The negotiations have centred on a package that would involve the UCW in lifting restrictions on the effective use of letter mechanisation equipment and on new technology generally, and in its agreeing to discuss new productivity and wage agreements. In return, the Post Office will consider financial incentives related to the savings that will result from increased productivity and the removal of the existing restrictions but also involving some pre-payment. The Post Office has also agreed to discuss some movement on the question of hours. The intention is that there would be discussion on the possibility of a national enabling agreement but that any movement on hours would be by local agreement and would be implemented only if it were self-financing from the workforce's share of the financial savings and then only retrospectively.

The Post Office have entered these discussions on the basis that any agreement should result in benefits not only to the Post Office and their staff but also to their customers. I intend to discuss this further with Sir Ronald immediately following the UCW Conference.

Copies of this letter go to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Geoffrey Pattie', written in a cursive style.

GEOFFREY PATTIE

M12/M12AES



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5/2

CSO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 February 1985

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Norman Tebbit

POST OFFICE: OBJECTIVES AND CORPORATE PLAN

You wrote me a further letter on 8 February about objectives for the Post Office and the 1984 Corporate Plan.

I am grateful to you for telling me of your proposals. They seem to meet all my concerns about both the proposed objectives and the Plan and I am encouraged to see these signs of significant progress.

I agree that work on the important and inter-related issues of the letter monopoly, privatisation and objectives should be taken forward independently of the 1985 Plan, but I suggest that we need to set down a firm time-table and announce it now. You will recall that my letter of 29 January proposed an E(NI) discussion on the 1985 Plan before the summer Recess. Privatisation and the letter monopoly could then be examined during the summer and your officials, in conjunction with mine, could prepare a paper by the autumn on the possible ways and effects of relaxing the postal monopoly and the scope for the early introduction of private capital. I think this paper might most suitably be taken in E(CP).

The outcome of any E(CP) discussion could have fundamental implications for the Post Office's objectives. I therefore agree that the objectives exercise should proceed to the same time-table as the E(CP) paper and should take account of E(CP)'s conclusions.

I am copying this letter to the other members of E(NI) and E(CP) and to Sir Robert Armstrong.

NIGEL LAWSON

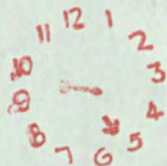
Nigel Lawson

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Secretary of State for Trade and Industry

8 February 1985

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

R Nigel,

POST OFFICE: OBJECTIVES AND CORPORATE PLAN

Thank you for your letter of 29 January. I fully accept that there is a need for both the objectives and the Corporate Plan of the Post Office to be consistent and to reflect the aims which we have for the Post Office both in the shorter and the longer term. But I fear that we have a difficulty in timing, and are in something of a "chicken and egg" situation. The 1985 Plan ought to be set in the context of agreed long-term objectives; but the 1985 Plan is an essential input into our consideration of those same long-term objectives. The 1985 Plan is scheduled to be presented to the Post Office Board later this month, in order to meet the timetable of submitting it to me by the end of March. As Geoffrey Pattie said in his letter of 10 January, we attach considerable importance to holding the Post Office to that timetable for this year. This means that I should like to make our views clear to Sir Ronald Dearing during the next week.

2 I believe, therefore, that it is necessary for us to establish some points in relation to the 1985 Plan, before progressing to the formulation of objectives. For example, it is too early to say whether we want Girobank to continue its present policy of growth within constraints (both financial and regulatory) imposed by Government; or whether it should be cut back to a simple money transmission service; or whether it should plan for more rapid growth with the injection of public funds, a private sector partner, or, indeed, whether it should be privatised. Also, the Counters business faces major decisions in the next few months that will affect its long term future. And, even on the Mails business, you have expressed doubt about the central strategy of marketing for growth given the absence of data on long-run marginal cost. And there is nothing at present in the draft objectives about pricing policy.

3 I would therefore propose to tell Sir Ronald that we will return to the question of objectives later in the year once we have

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considered the major areas of uncertainty, and that the Corporate Plan will be a major input for that consideration. But I will also propose to tell him that he should anticipate the re-formulation of the Objectives on the basis of our general aim to introduce private sector capital into the business. I will also raise the points on form and timing mentioned in Geoffrey Pattie's letter of 10 January to you and say that the strategies outlined in the 1984 Plan are acceptable on an interim basis. However, I would expect the 1985 Plan to justify the chosen strategy for Mails in the absence of long-run marginal cost data and I would expect to see the range of alternative strategies for Counters fully explored, including critical appraisal of the scale and nature of the network. I suspect that separate Plans for Mails and Counters would be appropriate but, at this stage, I would not wish to insist on it.

4 There are three further points in your letter on which I wish to comment: separation of the accounts, the letter monopoly, and private capital.

5 First, we are pursuing the question of separation of the accounts and Sir Ronald has been told that we expect to see, by the end of February, a monthly action plan for the introduction of fully-audited separate accounts for Mails, Counters and Girobank for 1986/87 and that we expect monthly progress reports.

6 Second, the letter monopoly was last reviewed by Keith Joseph in 1979/80. He concluded that the basic letter monopoly should not be disturbed. Your letter offers no reasons for re-examining the letter monopoly. Also, on the question of the introduction of private capital into the Post Office, Kenneth Baker and John Moore agreed only a year ago that we would look to see whether Girobank was a candidate but that the rest of the Corporation would not be a possibility in this Parliament. Nevertheless, it was agreed that we should move the Post Office to speedy action on corporate structure and creation of subsidiaries. On the scope for privatisation of Girobank, I would hope to put a note to you at about Easter. And we have made it clear to Sir Ronald that we see the creation of formal subsidiary status for Counters and Girobank as the next logical step once separate accounts have been established.

7 On these questions of the letter monopoly or privatisation, I should be happy for us to consider whether the results of earlier reviews should now be reopened. But, in the light of the priority which I attach to making progress now with the 1985 Plan, I hope you will agree that we should pursue these points separately. In view of the difficulty over timing, I shall assume that you are content that we should proceed with Sir Ronald on the basis of the



points set out in this letter, unless I hear from you to the contrary by Wednesday 13 February.

8 I am copying this letter to the other members of E(NI) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a large initial 'N' and a flourish at the end.

NORMAN TEBBIT

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Norman

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 January 1985

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Norman

POST OFFICE: 1984 CORPORATE PLAN AND OBJECTIVES

You wrote to me on 23 July with some draft objectives for the PO and Geoffrey Pattie subsequently wrote to me on 10 January about the PO's 1984 Corporate Plan. There is a strong connection between these two matters and this letter therefore addresses both.

I share Geoffrey's disquiet about the quality of the 1984 Corporate Plan and the time it has taken to circulate it to colleagues. I agree that Ron Dearing should be told of our concern and, more positively, should be given a clear indication of the kind of analysis we expect in a Corporate Plan and the options and policies which should be appraised. By setting challenging and unambiguous objectives we can convey clearly the direction and policies we wish the postal business to follow and also establish a framework in which the PO can construct their Corporate Plan. Setting appropriate objectives is an essential step if the PO are to be in a position to make good some of the deficiencies in the 1984 Plan.

My main reservation about both the draft objectives attached to your July letter and the summary of the Corporate Plan attached to Geoffrey Pattie's letter is that neither gives enough prominence to some of the important policies which we are expecting the PO to pursue. There is, for example, no reference in either document to the goals of privatisation and the introduction of private capital into the PO. I accept that the PO is not an obvious candidate for early and wholesale privatisation. However, the industry's objectives and the Corporate Plan should both look beyond the short term. If the PO are ever to benefit from more direct exposure to the market, we should surely be encouraging their management to focus now on the possibilities for introducing private capital into their business activities. But if their objectives make no mention of this, the PO will certainly not feel obliged to consider it.

The draft objectives also make no reference to the PO progressively separating their principal constituent businesses as a move towards identifying candidates for privatisation or for joint ventures for the private sector, yet I believe we both considered they should do just this. Publishing separate, audited accounts for Counters and the Royal Mail would be a positive step in this direction. If you agree, I suggest we should set the PO the specific objective of publishing separate accounts for the Counters and Mails businesses to fully audited standards from 1986-87. The 1985 Corporate Plan could then review progress. Separate Corporate Plans for Counters and Mails might also now be appropriate.



Finally, I think it wrong that the objectives and the Corporate Plan should tacitly assume that the postal monopoly is a permanent feature of the communications industry. I would prefer explicitly to leave open the possibility of some relaxation of this monopoly if circumstances in the future were to suggest that this would encourage new and competing services and technologies to be developed. I suggest that the PO should be asked to justify the continuation of the postal monopoly in their next Corporate Plan and to consider the alternatives.

... I enclose a revised set of objectives for the PO. You will see that it builds on your original draft but also incorporates the important aims which I have identified above. Most of the changes (all underlined) are to Section 5 of your draft but I have also proposed some smaller changes elsewhere. I hope you will agree that this draft accurately reflects our objectives for the PO and is consistent with the form and style of the objectives which have been settled with the Chairmen of other nationalised industries. I believe these objectives set a more challenging framework for the 1985 Corporate Plan and should lead to less complacency in its analysis of policy options.

May I also make some further comments on the proposed strategies which have emerged from the 1984 Plan? The plan for the Royal Mail which Geoffrey Pattie is proposing to approve appears essentially to aim for volume growth through vigorous marketing. But I have some reservations.

The 1984 Plan does not appear to have reviewed thoroughly some of the other options - in particular, whether a more efficient service could be offered by relaxing the postal monopoly to allow greater competition with private sector operators. I am concerned that without this analysis we do not have a proper basis on which to take strategic decisions.

I am also not yet satisfied that this strategy of growth can be justified in robust financial terms. You will recall that the MMC Report on the Letter Post Service published last September suggested that the PO's appreciation of the marginal costs and marginal revenues of their operations was inadequate and while this situation remains, I do not see how we can sensibly approve a strategy of volume growth. (Incidentally, if you agree with the proposals for following up MMC reports in my letter to you of 11 January, we might make a start by applying my suggestions to this report on the Letter Post Service. As an immediate step, we might tell the PO that we expect them to report on the progress made towards implementing the MMC recommendations in the 1985 Plan.)

As a result, I believe it would be premature to endorse the proposed strategy for the Royal Mail. We must surely wait until the PO have presented a more rigorously constructed Corporate Plan and can justify their recommended strategy in concrete financial terms. I imagine you will want to give the PO a clear message to this effect.

I am generally content with Geoffrey's proposal to accept the strategy for Counters on an interim and short term basis. I understand that the Counters' automation proposals have been expected for some time and we shall need to ask the PO to explain the delay in the 1985 Plan if there is any further slippage beyond this Spring. I think we should also ask the PO to consider in the 1985



Plan the alternatives to automation for achieving reductions in costs. These might include a review of the scale of the rural and urban networks and the cost savings which might reasonably be achieved through some intensification of the closure programme.

I agree that it would not be particularly useful for E(NI) to discuss the 1984 Plan now. However, I am sure we should aim for an E(NI) discussion of the 1985 Plan based on an appropriate set of objectives, requiring the PO to appraise a more thorough range of policy options. I suggest that arrangements are made now for an E(NI) meeting on the PO before the Summer Recess.

The summary of the performance review attached to Geoffrey's letter seems thorough and comprehensive and I hope this year's Review will maintain the same standards.

Finally, I recall from your IFR discussions with Peter Rees in September that you were shortly to make proposals for profit and efficiency targets for the PO which would take effect once the present targets expire at the end of March. It would be helpful if you could give us an early indication of your proposals as time is short and we do not want the PO to enter a new financial year without agreed targets in place.

I am copying this letter to the other members of E(NI) and to Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read "Nigel Lawson", with a long horizontal flourish extending to the right.

POST OFFICE OBJECTIVES

For each of the Post Office's main business activities the objectives are as follows:-

1. INLAND LETTER BUSINESS OBJECTIVES

- 1.1 To make a profit each year.
- 1.2 To give good value for money by providing the quality and standards of service at the levels for which customers may reasonably expect to pay.
- 1.3 To increase the efficiency and cost effectiveness of the service and adapt it to maintain the business's competitive price position in the communications industry.

2. OTHER MAILS SERVICE OBJECTIVES

- 2.1 To provide a range of complementary communications and distribution services, consisting of Royal Mail International, Royal Mail Parcels, and Premium service activities.
- 2.2 To make a profit from each of these three business activities.
- 2.3 To provide service standards that meet customer demand within a competitive market.

3. COUNTER SERVICE BUSINESS OBJECTIVES

- 3.1 To make a profit each year.
- 3.2 To provide efficiently and economically, financial transactions, information and other related services to meet the needs of all Agency customers, National Girobank and the Mails business.
- 3.3 To adapt service and operations to changing market demands, taking appropriate advantage of opportunities offered by technology.
- 3.4 To provide efficient services in an attractive customer environment.

4. BANKING OBJECTIVES

4.1 To make a profit each year sufficient at least to comply with financial targets agreed with the Government.

4.2 To provide a competitive, nationwide banking service to both personal and business customers using post offices as branch outlets, and to **pursue a policy of profitable growth** within the framework of prudential ratios determined by the Bank of England.

5. In pursuing these business objectives, the Post Office will act within the framework of a Corporate Plan reviewed annually by Government and with recognition of its statutory and public service obligations, mindful of its special responsibilities where it provides a monopoly service, and will meet its financial and other targets and act within borrowing limits agreed from time to time with the Government.

In support of the business objectives, the Post Office will:

5.1 seek to realise the full potential of its workforce within a framework of good staffing practices;

5.2 improve the efficiency with which the resources are used and in support of that pursue a well conceived investment programme to take appropriate advantage of technological advances;

5.3 reduce the cost of services, measured in constant prices, by improved efficiency;

5.4 develop its business in accordance with changing customer needs, seeking opportunities for profitable growth at fair prices;

5.5 within the framework of its statutory powers, seek profitable new business opportunities through vigorous marketing, either on its own account or in association with other enterprises.

5.6 The Post Office should continue the functional separation of its constituent businesses of Royal Mails, Counter Services and National Girobank. The necessary management and organisational changes should be reflected in the Post Office's published accounts and in the financial and performance targets set by the Government. The Post Office should

publish separate accounts for the three constituent businesses to fully audited standards in 1986-87 and thereafter.

5.7 The Post Office should consider the possibilities for further introduction of private capital into any of its business activities and should make recommendations to Government from time to time. The Post Office should also consider the possibilities for establishing wherever appropriate separate subsidiaries as candidates for privatisation or joint ventures with the private sector and make recommendations to Government.

5.8 The Post Office should continue to appraise the scale and nature of its network and postal monopoly against the background of technological and other developments to ensure a proper and balanced evolution of its ability to offer efficient and cost effective services.

Future of Po - Post & TELS
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31 JAN 1985



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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

25 January 1985

Dear Peter

NATIONAL GIROBANK: FINANCIAL TARGET

The current financial target for National Girobank expires at the end of March 1985 and we have been giving consideration to a new target to run from 1985/86 onwards. I have concluded that it would be right to set a target for the next three years of an annual average return on mean net assets of 22% calculated on the historic cost basis before tax and before interest on long-term loans from the Secretary of State. This figure is consistent with the profit levels implied in the EFL/EFrs to which you recently agreed in the IFR bilaterals. I should be grateful if you would confirm that you are content for me to proceed on this basis.

I am copying this letter to the Prime Minister, other members of E(NI), the Financial Secretary to the Treasury and Sir Robert Armstrong.

Jca

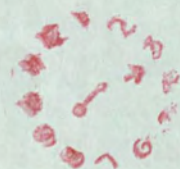
GEOFFREY PATTIE

JA3/JA3ABF

~~with A-1. 31-7~~

Siobhán

28 JAN 1985





NORPH

AT 10/1

cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

10th January 1985

Dear Chancellor,

POST OFFICE POSTAL BUSINESS: CORPORATE PLAN

I attach summaries of the Post Office Postal Business Corporate Plan, Environmental Review and Performance Review.

The Plan for Mails envisages a strong marketing effort in order to secure the growth that is necessary for a largely fixed cost business; the continuing development and application of new technology; and a serious attack upon the labour costs which account for approximately three-quarters of total current expenditure. The Post Office is hopeful of a major breakthrough on this front at the UCW Special Conference called for 4 and 5 March with a view to overturning previous Conference decisions which are preventing progress in negotiations of new working arrangements. I propose to tell Sir Ronald Dearing that I approve the strategies set out in the Plan as being appropriate for the Mails business in the medium-term.

The plan identifies the automation of the network as the key strategy for the Counters business and describes a holding operation in terms of containing and reducing costs through efficiency improvements and network closures in advance of a full automation appraisal. In a sense therefore it is an interim Plan pending the major decision on automation. I understand that the Post Office hopes to bring forward proposals in the spring. It would be my intention to tell Sir Ronald that I approve this plan for Counters as a short-term strategy but that I would expect to see a fully-worked up appraisal for automation in the spring and that this should be set in the context of an overall medium-term strategy.

I also intend to tell Sir Ronald that the form and timing of this year's Plan left something to be desired. I expect to see future

JA2/JA2AAD



plans submitted on time. I also regard the lack of a visible link to the Environmental Review and the complete absence of strategic alternatives in key areas as weaknesses. I would also intend to draw his attention to the inadequacy of the supporting data which led to considerable delays in considering this year's Plan.

I do not believe that it is necessary for E(NI) to meet to discuss this Plan unless you or other members of E(NI) wish to do so. I should therefore be grateful for your views and those of E(NI) colleagues to whom I am copying this letter and, in particular, for an indication that you are content for me to proceed on the basis that I have outlined.

Yours sincerely,

Timothy Abraham

PP. GEOFFREY PATTIE

(Approved by the Minister
and signed in his absence)

POST OFFICE CORPORATE PLAN 1984: SUMMARY OF KEY BUSINESS STRATEGIES

ROYAL MAIL

The essential strategy is to market for growth while seeking to contain costs and improve quality of service.

The Royal Mail is aiming for volume growth of 10% in inland letters, 25% in inland parcels, and substantial Datapost growth. Royal Mail International will seek real revenue growth.

As well as growing in traditional markets, the Royal Mail will develop its range of services to meet customer needs; Premium Services will be developed further; the Argonaut freighting service will be extended; and Royal Mail Parcels will continue to adapt to meet the demands of businesses.

The Royal Mail recognises the essential importance of high quality, reliable service in its drive to expand business. Service has improved in the last year, but targets have not yet been achieved. Major revisions to network and scheduling arrangements along with other improvements will be introduced to ensure that high quality service can be given. Attention will be paid to reducing damage levels for parcels.

The strong growth in Royal Mail volume, together with the target of providing consistently high quality of service will require some additional expenditure on staff^{and} conveyance. However, fixed costs - such as collections and to some extent, deliveries-absorb volume growth and this leads to increased productivity. Improved management information systems, national productivity schemes, new Organisation and Methods initiatives and the completed arrangements for mechanised letter sorting will also contribute to improved efficiency and service. The Plan looks forward to a major programme of work and effort to achieve an overall improvement in Royal Mail productivity of 10%, whilst recognising that such an increase has yet to be validated by detailed evaluation of opportunities.

COUNTER SERVICES

The essential strategy is the automation of the counters network which will offer opportunities for both a wider range of services and efficiency gains. The interim strategy is to seek to hold or increase overall volume while looking to cut back on costs through a reduction in the size of the network and continued gains from the counters productivity scheme.

Counter Services' traditional products - the supply of Government department business (55%) and Royal Mail services (22%) - cannot offer on their own significant growth opportunities. However, growth will come from National Girobank and from providing a widely available cash-issue service on behalf of financial institutions, through the Counter Automation programme, and conceivably through the provision of information services for which counter automation could qualify Counter Services eg the provision of up-to-date information on jobs.

The standards of service provided by Counter Services must be balanced with the need for efficiency. The Plan gives an indication of possible reductions in the numbers of town sub-offices over a three year period consistent with the public statements made on the counters network. Such reductions would be to protect the unique national coverage of the Counter Services network, preserving service in rural areas and retaining the level of urban provision above public standards. The customer environment in offices will be improved to bring the image of Counters up to modern standards to attract customers.

Counter Services plan to reduce costs through the basic grades (PO/PA) productivity scheme and O&M techniques. Economies will also be achieved from the application of published standards to the network of urban offices.

THE POST OFFICE: POSTAL BUSINESS: ENVIRONMENTAL REVIEW 1983

Three main themes emerged from the Review:

- That the Post Office's markets are coming under apparently increasing threat, both from rivals for conventional services as well as those based on new technology; the Counters in particular feel the need for unprecedented and quick change;
- that information technology and its effects on the communications market have the potential to increase the synergy between the three main businesses - Mails, Counters and Girobank;
- that to meet this situation, the Post Office must seek more than ever to "control its destiny in the market place; and welcome change under strong leadership".

The Review therefore proposes that, while there must be distinct action plans for each business, there should be a clear long-term strategy for the Corporation as a whole.

Economic assumptions included in the plan are unemployment in the range of 2 million to 4 million with the result that the Post Office will not suffer shortages of labour; an average annual rise of from 1 to 3% in output of the service sector with communications likely to continue to be a growth area of the economy; with a full supply of labour and slow growth in GDP, real wages to rise only perhaps in the range of $\frac{1}{2}\%$ to $1\frac{1}{2}\%$ a year.

The Review foresees the prospect of dynamic and possibly exponential growth in communications but suggests caution in forecasting rapid growth. The Review forecasts a mid-point view that the letter service in its conventional form has the prospect of a modest increase in volume for 3-5 years but thereafter volume could begin to decline.

The Review sees the Counters business as being under particular threat from the advance of information technology and from a decline in its traditional markets particularly for Government agency work. It sees the Counters as having certain unique advantages but to capitalise on these, the business needs to reduce its unit costs; to automate its transactions; to widen the range of its activities and consolidate its Government business; and to review the appropriate size of the network.

SPF2/DTI

December 1984

POST OFFICE

POSTAL BUSINESS PERFORMANCE REVIEW - 1984

Background

- 1 This review covers the period 1978/79 to 1983/84.
- 2 The Post Office currently comprises three main businesses - the Royal Mail, Counters and National Girobank. Telecommunications was formed into a separate corporation as a result of the 1981 Act. The Post Office was a Government Department until 1969 but has been in state control since the sixteenth century. The postal business has been run on the basis of one corporation until recently when board and management changes were introduced designed to create more distinct identities for the mails and counters business. The changes have been supported and encouraged by the DTI who will be pressing the Post Office to move quickly to the stage of separate formal accounting for the three businesses and Companies Act company subsidiary status for Counters and Girobank.
- 3 Draft objectives for the Post Office Corporation were sent by the Secretary of State to the Chancellor for comment on 23 July 1984.
- 4 The Post Office is set an EFL, a financial target and a real unit cost objective by Government. Quality of service aims are set by the Post Office and have been accepted by Government. The financial target and RUC objective run only to the end of 1984/85. Officials will be putting proposals to Ministers on new targets shortly. Annexed to this note are tables setting out the Post Office's financial and efficiency targets during the review period and performance against these.
- 5 The Post Office was the subject of an MMC investigation into the Inner London Letter Post in 1980 which led to recommendations for improved productivity which were accepted and successfully acted upon. A further report on the letter post was published on 12 September 1984 and the Post Office is due to submit its response to the Department before the end of the year. The report was very critical of the Post Office's performance chiefly on quality of service. The Counters side of the Post Office is to be referred to the MMC in 1985.

Performance - EFL (Summary at Annex 1)

- 6 EFLs have only been set separately for the postal business since 1982/83. For the previous two years, the EFL included Girobank and, prior to 1980/81, the telecommunications business of the old Post Office Corporation. Reliable Post Office figures are available only for 1980/81 onwards. In that year, the Corporation failed a negative £20m EFL by £12.3m, but more than recovered this by an excess of £23.9m the following year. 1982/83 showed a £3.9m surplus over the negative EFL of £55.8m. In 1983/84 there was a surplus of £10.6m against the negative EFL of £50.9m.
- 7 Despite shortfalls in some years and overspends in others, postal business capital spending over the review period at £542.2 was very close to the allocation of £555.2m. Outturn in 1983/84 was £123.1m compared to the allocation of £130.0m. A note giving details of Post Office capital expenditure over the review period is at Annex 2.

8 The impact of technology on both the mails and counters business over the next few years could be significant and, although the Post Office has been slow to move, it is now facing up to the implications. A new IT Division has been established with a Director brought in from outside. The major IT project is counters automation. While appreciating the scale and complexity of the project, officials have stressed to the Post Office the need for decisive action. A recently established project team within the Post Office is looking to put further proposals to the board later this year and officials will continue to keep abreast of developments. Progress in building up the electronic mail and Intelpost facsimile services has been satisfactory.

Performance against financial objective (Summary at Annex 3)

9 The Post Office comfortably exceeded its profit target in each year of the review period apart from 1980/81 when a target of 2% on turnover was failed substantially with outturn of 1.1%. This owes much to a rise in real wages of 7% in that year. In 1982/83 a target equivalent to 2.8% on turnover (after allowing for the effect of NIS reductions) was well exceeded with outturn profits of 4.9% (£129m against £74m target). However, this was almost entirely due to a tariff increase in February 1982 of 9½% when an increase of perhaps 3½-4% would appear to have been the maximum necessary. Departmental scrutiny of tariff proposals has been tightened up since then. Performance in 1983/84 was 4.2% against a target of 3%. A one year profit target of 4% on turnover has been set for 1984/85 while discussions continue on new financial and efficiency targets for the years from 1985/86.

Mails

10 Inland letters has consistently provided 57-59% of Post Office income over the review period; counters 20-22% and both parcels and overseas mails around 10%.

11 Inland letters has been consistently profitable with a return of 3.1% on turnover in 1983/84 (5.1% in 1982/83). Although a statutory monopoly, there is competition from other forms of message communication particularly telephone, computers (for financial and other mail) and television (direct mail advertising). Volume is therefore sensitive to price changes and has suffered from large price rises in the past - particularly following the national strike in 1971 and the ending of price restraint in 1975/76. Nevertheless prices have fallen by 20% in real terms over the last seven years. Main growth areas have been financial mail and direct mail advertising. Social mail is declining despite strong growth in greetings cards. Officials take the view that inland letters can continue to grow steadily for some time yet with the aid of marketing.

12 The Post Office is in the process of changing to a product-based approach to the mails market. Organisational changes are expected to be substantially completed this year which will include the appointment of product managers for specific segments of the market such as financial mail, direct mail and social mail. The Post Office has strengthened its marketing effort recently (not just on mail but on counters as well) and marketing is seen as being an increasingly important tool which within the new approach product managers will target towards exploiting the potential of their particular market segments.

13 Following substantial losses in 1976/77 and 1977/78, the parcels business recorded a small profit in 1978/79 and 1979/80. In 1980/81 volume fell by 4% and a loss of £5.9m was recorded. Although the Post Office blames the recession, it is more likely attributable to a rise in real prices of 10% and a rise in real unit costs of perhaps 13% again reflecting the large increase in real wages that year. Since 1980/81, profits have been restored and have grown steadily to 6.4% of turnover in 1983/84. Little market share information is available but the Post Office is looking to increased marketing and increased efficiency to secure sustained profitable growth. Recent performance suggests that this is attainable.

14 The overseas business barely broke even in 1979/80 and 1980/81 but profitability has increased strongly since. But this has been in the face of falling traffic (30% down over the review period) and there is evidence to suggest that the Post Office is able to increase real prices (up 42% over the review period) to maintain income and profits. There is also evidence to suggest that there may be some cross-subsidy within the overseas mail sector and officials are discussing this with the Post Office.

Counters

15 Counters business was consistently profitable until 1981/82 but this was largely inevitable given the cost-plus basis of the pricing agreement with Government Departments. The present three year agreement assumes a 5% reduction in RUC (in line with the whole business target) and, although profitability has held up, the business faces major problems. DHSS is by far the largest customer representing about a third of total income. DHSS volume is threatened by changes in benefit payment methods. A conscious effort has been made to replace this business with other Government work and, although there have been some successes, it is proving an extremely difficult task. This is largely because the counters service is seen as being expensive by user departments. Increased volume for a largely fixed cost business will reduce unit costs, allow keener pricing and make it easier to retain existing business and attract new work. But volume cannot increase while prices are at current levels. The need for the counters business therefore is for a step reduction in fixed costs.

16 Following consultations with Government, the Post Office announced plans earlier this year to reduce the size of the network by 80 Crown Offices and 1,000 town sub-offices. Additional savings were to come from downgrading 50 Head Post Offices and from economies in the rural service. Initial costs of £43m were to produce savings of £15m a year - 3% of total counters costs. This is probably too little and there will need to be a continuing review of network size. Consideration also needs to be given to ways of financing what will always be an uneconomic rural network. There is evidence that present pricing arrangements could disguise an element of cross-subsidy from users of the town network to users of the rural network. Counters automation should help reduce costs and bring in new business; the 1982 Counters productivity scheme is forecast to produce a 10% reduction in hours by the end of 1984/85 and a marketing drive including uplifting antiquated Crown Offices has been started. The prospects for Counters depend upon its ability to break into the price/volume spiral. In discussions on the Corporate Plan, officials have examined various strategies for Counters but pending detailed discussions which remain to be held on the vital question of pricing strategy these were inconclusive.

Forecasting

17 Post Office performance on forecasting GDP and RPI has not been particularly good. Forecasts for traffic growth have been consistently conservative - although consistently optimistic for overseas mail.

Pay and Associated Costs

18 The Post Office has four main negotiating groups. The UCW, representing 156,000 employees is by far the largest and sets the pace for the others. These are the POEU (8,000); Communications Managers Association (15,000) and the National Federation of Subpostmasters (20,000). In June, a ballot of UCW members accepted a settlement for 1984 of 4.9%. The UCW claim was for at least 5.2% and a package of other improvements including an hour off the working week. Extensive unofficial action was taken and there was a very real prospect of a programme of official action before the Post Office secured the deal which consists of 4% on basic rates plus a range of monetary additions and changes in overtime arrangements producing an overall average increase of 5.2% on basic rates but a pay bill increase of 4.9% this year and slightly more, but less than 5% in full year. There was no movement on the claim on hours and other conditions. The 1983 UCW settlement was 5% from 1 April and an additional 1% from August plus one day's extra holiday; in 1982 it was 7% and in 1981 8%. The 1984 CMA settlement was secured in July and consisted of 4% on basic rates plus a range of additions producing an increase to pay bill of 4.56% this year and 4.76% in a full year.

19 Paybill increases have roughly matched RPI movements apart from 1980/81 when paybill rose in real terms by 7%. It is no coincidence that the Post Office failed RUC and profit targets and EFL that year. Although NES (New Earning Survey) figures are on a different basis, they indicate that Post Office earnings have been rising in real terms over the review period, and that postal employees have been doing significantly better than average. Despite this evidence, the Post Office maintains that postmen's earnings have fallen in real terms and in comparison to national average earnings. Officials have raised this with the Post Office to try to establish a common data base. There is little prospect for an acceptable strategy on pay while this difference of perception remains.

20 Although the Post Office argues that it faces union pressure for a shorter working week, average basic hours are almost identical to NES average figures. Postmen work 39.5 hours basic compared to the national average 39.2. It is Post Office strategy to reduce overtime hours but this has stuck at around 15½% of total hours over the last three years. Postal workers work significantly more overtime than average. There may be some justification for the Post Office view that it is vulnerable on holidays, however.

21 Mails productivity has increased by 11.0% in the last three years with a 2.2% improvement in 1983/84 (4.8% in 1982/83) and is at its highest level since the 1971 strike. In London, productivity has improved by 26% in the four years from the MMC report in 1980 to March 1984. However, the Improved Working Methods Scheme (IWMS) which underpinned this improvement, provides for an effective 70% workforce share of the savings so that the benefit to the business was much reduced. There are other weaknesses in the scheme - which covers less than 60% of eligible employees and the Post Office has included the introduction of a replacement scheme in its Plan strategies this year. It is the intention to negotiate a new package covering productivity, hours and holidays. Officials are being kept in touch with developments.

A counters productivity scheme is expected to produce a 10% reduction in hours in the two years to 1984/85 which, with fairly static volume, represents good productivity gains and, because of 100% coverage and a lower workforce share (50%), good savings to the business.

22 Sub-postmasters average remuneration has risen by 20% in real terms over the review period - significantly more than the increases for direct employees which we have already suggested were generous. We do not know whether this reflects heavier workloads but it is very unlikely. Touche Ross looked at the question of the method of sub-postmaster remuneration as part of the Post Office response to a Select Committee on Industry and Trade recommendation. They expressed concern that the system may not be considered commercially sound and recommended that the objectives of the remuneration system be re-appraised together with the nature of the basic arrangements between the Post Office and the NFSP. The Post Office undertook to consider this and officials discussed the question in discussions on the Corporate Plan. The Post Office intend to undertake a fundamental review of the remuneration system but this will not be started pending completion of current work on the arrangement for measuring and allocating counters' costs and workload. Officials will continue to press the Post Office on the remuneration question.

Non - Wage Costs

23 Non - wage Costs relate chiefly to mails operations expenditure with accommodation charges and motor transport quite significant. Officials discussed the question of motor transport policy with the Post Office at length in Corporate Plan discussions. Motor transport is one of the areas which the Post Office has been subjecting to close Rayner-type scrutiny and involving outside consultants. These studies have revealed scope for increased efficiency and cost savings and action plans are being devised to secure the improvement which the studies have suggested. Officials will keep in touch with developments and seek to ensure momentum is maintained on follow up to the studies.

Real Unit Costs (Summary at Annex 4)

24 The postal business was first set an RUC objective of holding real unit costs constant over the five years to 1982/83. A 3.3% improvement was achieved in 1978/79 and costs were held steady the following year. But in 1980/81, the 7% real pay increase, lower volume and lower productivity led to an increase in RUC of 8.2% to take the Post Office 4.3% over target. This had increased to 4.8% by the end of 1981/82. The current target was then introduced with the aim of reducing real unit costs by 5% over the three years to 1984/85. The Post Office is on course to meet this target. Officials are currently discussing new targets for 1985/86 and beyond.

Quality of Service (QOS)

25 Current inland letter quality of service targets require the Post Office to deliver 90% of first class mail on the first working day after collection and 96% of second class mail by the third working day after collection. In no single month during the review period has the Post Office met quality of service targets for either first or second class mail. While performance edged up to within striking distance of the targets in late 1982 and early 1983 it fell back significantly towards the end of 1983 and has continued to be poor in 1984. The major reason for the deterioration has been industrial

relations problems within the Post Office both in connection with this year's UCW pay claim and more generally and more extensively, in connection with Post Office management's efforts to improve efficiency.

26 Officials have discussed with the Post Office the performance on QOS and action to secure improvements. The Post Office plans to meet the target by March 1985. Officials are continuing to monitor performance.

27 Although there is a Post Office quality target for parcels (70% delivered by the second working day after collection) and although it is seldom achieved, officials take the view that as parcels operates in a competitive environment, the market - not Government - should determine parcels quality of service and the price/quality relationship. There is no quality target for overseas mail but international postal organisations are currently studying this question. However, any targets would in any case be outside the control of the UK Post Office. The UK inland part of the journey is covered by the inland QOS. Officials are discussing the question of a QOS target for outward overseas mail from collection to delivery to the foreign administration. There is a quality of service target for counters - that average waiting time should be in the range 15-75 seconds. Officials are discussing the usefulness of this target with the Post Office and will be looking to the Post Office to establish a more meaningful target.

SPF2/DTI
November 1984

Performance against EFL

	(£ million)					
	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
EFL	(1)	(1)	(20.0) ⁽²⁾	10.5 ⁽²⁾	(55.8) ⁽³⁾	(50.9) ⁽³⁾
Achievement	(16.7)	(34.0)	(7.7)	(13.4)	(59.7)	(61.5)
Difference			12.3	(23.9) ⁽⁴⁾	(3.9)	(10.6)

Notes:-

1. EFLs were for GPO including Telecoms. Internally apportioned figures had no formal status and are highly unreliable.
2. For 1980/81 and 1981/82 the formal EFL was for Posts and Girobank.
3. Final EFL in year after adjustments for NIS reductions.
4. Agreement was reached towards the end of 1981/82 that the first claims on the then anticipated surplus profits would be repayment of the previous year's EFL shortfall resulting in a retrospective EFL of zero.

Post Office Capital Fixed Asset Expenditure

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
New Construction £m	N/A	N/A	N/A	44.0	48.6	67.7
Land and Buildings £m	N/A	N/A	N/A	4.0	16.6	11.7
Vehicles £m	N/A	N/A	N/A	29.0	23.5	19.0
Plant and Machinery £m	N/A	N/A	N/A	34.8	36.0	24.7
<hr/>						
Total (outturn prices) £m	42.5	64.1	76.0	111.8	124.7	123.1
Allocation (outturn prices) £M	56.5	54.7	64.5	134.5	115.0	130.0
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Overspend/(Underspend) £m	(14.0)	9.4	11.5	(22.7)	9.7	(69)
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Overspend/(Underspend) %	(32.9)	17.2)	17.8	(20.3)	8.4)	(5.3)
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Performance against financial objective

	Turnover £m	Target*		Performance*	
		%	£m equivalent	%	£ million
1978/79	1,447.4	2.0	28.9	2.3	33.1
1979/80	1,708.0	2.0	34.2	2.0	34.1
1980/81	2,125.2	2.0	42.5	1.1	23.3
1981/82	2,438.2	2.0	48.8	3.6	87.5
1982/83	2,649.0	2.8	74.0	4.9	129.1
1983/84	2,770.4	3.0	83.1	4.2	116.9

*On a modified historic cost basis for all years other than 1983/84 which is on a current cost basis.

REAL UNIT COST OBJECTIVE AND PERFORMANCE

	<u>Target</u>	<u>Performance</u>	
		1977/78 = 100	1981/82 = 100
1977/78	100	100	
1978/79	100	96.7	
1979/80	100	96.6	
1980/81	100	104.3	
1981/82	<u>100</u>	<u>104.8</u>	<u>100</u>
1982/83	98	(102.5)	97.8
1983/84	..	(101.3)	96.6
1984/85	95		

110 JAN 1985

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From the Minister of State
for Industry and Information Technology

File

*cc of Questions
Mess*

DEPARTMENT OF TRADE AND INDUSTRY
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GEOFFREY PATTIE MP

Charles Marshall
Lord Privy Seal's Office
House of Commons
London SW1A 0AA

3 December 1984

Dear Charles

BRITISH TELECOM

I attach a draft of the statement which Mr Pattie will be making in the House at around 3.30 this afternoon. As the Lord Privy Seal requested, this has been made as short and as uncontroversial as possible.

I am copying this to Andrew Turnbull(Nol0), Margaret O'Mara (Treasury), Helen Goodman (Financial Secretary's office), Murdo Maclean(Chief Whip's office), Mike Bailey(DoE), Janet Lewis-Jones(Lord President's Office) and Richard Hatfield.

Yours

Neil

NEIL McMILLAN
Private Secretary

NO5/NO5AAR



BRITISH TELECOM

With permission, Mr Speaker, I wish to make a Statement to the House about the allocation of shares in British Telecommunications plc.

First, employees and pensioners. Approximately 184,000 employees out of an eligible total of just over 230,000 responded to the "Matching Offer" by putting their own money into the company. Of these more than 62,000 employees together with 25,000 BT pensioners applied for shares over and above the Matching Offer. I welcome this impressive commitment to BT's future by its own workforce. Including those employees who have taken up the free offer alone some 222,000 of all BT's employees - over 96 per cent of those eligible - have become shareholders in the company.

Secondly, the general public. We received more than two million applications for the one thousand million shares available. Almost half of these applications were for 200 shares or 400 shares. The Government has decided to give priority to smaller applications, and all applications for 200 and 400 shares are therefore being met in full.



Applicants for 800 and 1200 shares will receive 500 and 600 shares respectively. Applicants for higher numbers up to a maximum of 100,000 shares will receive 800 shares. No allocation will be made to applicants for over 100,000 shares. As a result of these arrangements, BT commences its role as a publicly-quoted company with very substantially more shareholders than any company in this country.

The arrangements for institutional priority applicants and overseas markets are as I indicated to the House on 16 November. The offers of BT shares in Canada, Japan and the United States are now taking place.

Mr Speaker, British Telecom has now been successfully privatised. I am sure that Members on all sides of the House will wish success to Sir George Jefferson, to BT's management and to its employees, who have shown by their commitment to the company their confidence in its future success.



NBPM
BT 30/11

Phon

cepo

DEPARTMENT OF TRADE AND INDUSTRY
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PS/
Secretary of State for Trade and Industry

29 November 1984

Janet A Lewis-Jones
Private Secretary to the
Lord President of the Council
68 Whitehall
London SW1A 2AT

Dear Janet,

BRITISH TELECOM FLOTATION

My Secretary of State wrote to the Lord President on 8 October about the restrictions Ministers would need to observe in answering questions about British Telecom during the flotation period. The purpose of this letter is to remind Ministers that although the basis of allocation in the UK is likely to be announced this weekend, the offers in the United States and Canada will not close until 10 December and that in Japan until 11 December. Accordingly it is important that during that period Ministers should continue to follow the guidance in the 8 October letter where it remains relevant, and in particular to avoid expressing any opinion or making any prediction about the prospects for the shares or for BT's business.

2 I am sending copies of this letter to the Private Secretaries to other members of the Cabinet, to Murdo Maclean (PS/Chief Whip) and to Richard Hatfield (PS/Sir Robert Armstrong). I should be grateful if as before they would bring it to the attention of all Ministers in their Departments.

Yours ever,
Andrew Lansley

ANDREW D LANSLEY
Private Secretary

JH5AKY

30 NOV 1984





File → a TF
Press Office

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Andrew Turnbull Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

28 November 1984

Dear Andrew

Following Mr Hattersley's remarks to the Prime Minister in the House yesterday on BT share dealings I attach a brief covering the main points.

I am copying this to Margaret O'Mara in the Chancellor's office.

Yours sincerely
Steve Mummery

STEVE MUMMERY
ASSISTANT PRIVATE SECRETARY

NO5/NO5AAD

BACKGROUND NOTE

Although a grey market clearly is operating, Kleinwort, Benson believe that the amounts involved are relatively insignificant and that those involved are predominantly fringe overseas firms such as Harvard Securities. The lead managers for all the overseas offerings have confirmed that neither they nor the other members of their underwriting syndicates have engaged in such dealings.

The Department's legal advisers are mystified by Mr Hattersley's suggestion that such dealings would be illegal if operated by British subscribers. They would of course be contrary to the Stock Exchange decision that dealings should not start till 3.00 pm on 3 December, but grey market dealings before then would not be illegal.

1 Doesn't the high premium in the grey market, and the likely high premium when dealings start on 3 December, indicate that the price was too low? What will be the cost to the Exchequer

A.1 I cannot comment on dealings in the grey market. Nor can I speculate as to what may happen in the markets on Monday. We are satisfied that the price was the correct one in the circumstances at the time. It does not follow that if shares trade at a premium to the offer price, the offer would necessarily have been successful if the shares had been offered at a higher price. The size of any premium cannot be regarded as a cost to the Exchequer. [NOTE: references to a 40% premium are misleading. The whole of any increase in value on the shares is reflected in the price at which they trade on a partly-paid basis. Thus if the value increases by 20p, the partly-paid price increases from 50p to 70p, appearing as a 40% premium. But in reality the increase in value of the shares is 20p on £1.30, ie 15%.]

Q.2 How extensive have grey market dealings been? Have the overseas underwriters been involved?

A.2 Although some grey market dealing has undoubtedly taken place, we believe the amounts involved have been relatively small. We have no evidence that any member of an overseas underwriting syndicate has engaged in such dealing.

/Q.3

Q.3 What is the legal position?

A.3 I am advised that such grey market dealing would not be prohibited under English law. I understand, however, that it would be against US securities laws for ~~members of the US subjects~~ *to deal in BT shares within the US or between the US and the UK* ~~syndicate to trade in the grey market for their own account.~~ *before they are registered in the US.*
[~~CONFIDENTIAL NOTE: It would not however be illegal for them to trade on behalf of clients if so instructed.~~]



Prime Minister ②

AT. 6/11

DEPARTMENT OF TRADE AND INDUSTRY
119 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5147
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and
Information Technology

Mr GEOFFREY PATTIE MP

Margaret O'Mara
HM Treasury
Whitehall

16 November 1984

Dear Margaret

BT FLOTATION: STATEMENT

As I told you on the telephone, the Opposition has requested a statement on the BT Flotation this morning at 11.00 a.m.

I attach a copy of the statement which Mr Pattie will be making.

I am copying this to Helen Goodman, Andrew Turnbull Murdo Maclean and Charles Marshall.

Yours ever

Neil

N. M. McMILLAN
Private Secretary



STATEMENT

Mr Speaker, with permission I would like to make a further statement about the privatisation of British Telecom.

This morning Kleinwort Benson Limited on behalf of my Right Hon Friend the Secretary of State has offered for sale three thousand and twelve million ordinary shares in British Telecom plc at a price of 130p per share. The issue has been fully underwritten. Discussions are now taking place with a group of financial institutions and I am hopeful that within the next few hours the shares being offered in the UK will have been fully applied for. Subject to the successful outcome of these discussions the institutions will retain just over half of these shares and the remainder will be made available for public offer next week. Prospectuses will be published on Tuesday 20 November and the last date for applications will be 10 am on Wednesday 28 November. Copies of the prospectuses will be placed in the Library of the House today.

Of the shares on offer 415 million which is just under 14 per cent have been provisionally allocated for issues to be made in New York, Tokyo and Toronto and these are being underwritten by the Bank of England.

A handwritten signature in dark ink, appearing to be 'M. S.', located in the lower right quadrant of the page.

16 NOV 1921

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cc questions
press
TF

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Of the shares on offer 415 million have been provisionally allocated for issues to be made in New York, Tokyo and Toronto and these are being underwritten by the bank of England.

Press Notice

Prime Minister ②

Underwriting and
sub-underwriting completed. AT 16/11

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 5069
Out of hours: 01-215 7877

Ref: 656

November 16, 1984

BRITISH TELECOM FLOTATION

The following is the text of a statement made in the House of Commons today by Mr Geoffrey Pattie MP, Minister of State for Industry and Information Technology.

"Mr Speaker, with permission, I would like to make a further statement about the privatisation of British Telecom.

3072m.
"This morning Kleinwort, Benson Limited on behalf of my Right Hon Friend the Secretary of State has offered for sale three thousand and twelve million ordinary shares in British Telecom plc at a price of 130p per share. The issue has been fully underwritten. Discussions are now taking place with a group of financial institutions and I am hopeful that within the next two hours the shares being offered in the UK will have been fully applied for. Subject to the successful outcome of these discussions the institutions will retain just over half of these shares and the remainder will be made available for public offer next week. Prospectuses will be published on Tuesday 20 November and the last date for applications will be 10am on Wednesday 28 November. Copies of the prospectuses will be placed in the Library of the House today.

"Of the shares on offer 415 million which is just under 14 percent have been provisionally allocated for issues to be made in New York, Tokyo and Toronto and these are being underwritten by the Bank of England."

British Telecom Share Information Office

2-12 Gresham Street,
London EC2V 7AG..

News Release

FOR IMMEDIATE RELEASE

British Telecommunications plc -
Priority Application Procedure Completed

Kleinwort, Benson Limited, on behalf of The Secretary of State for Trade and Industry, announces that applications have been received from priority applicants for all the 2,597⁴⁴⁵ million ordinary shares in British Telecommunications plc which have been underwritten by a syndicate of United Kingdom banks. Irrevocable undertakings have been given to accept applications for 55% of these shares. Those shares not underwritten by the UK banks have been provisionally allocated to proposed separate offerings in the United States of America, Canada and Japan.

Enquiries to: Lord Rockley
David Clementi

Kleinwort, Benson Limited,
Tel: 01 623 8000

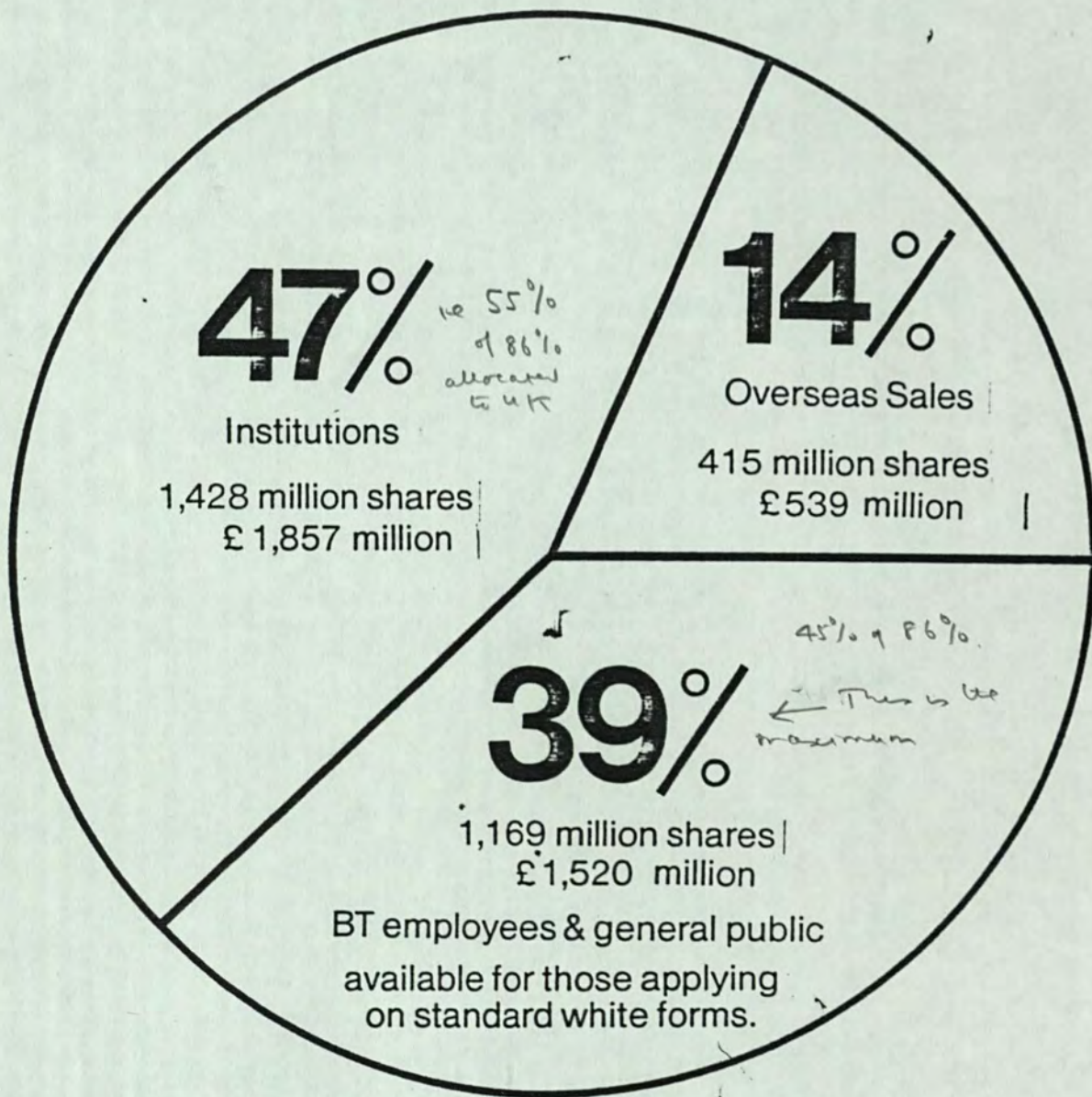
Date: 16th November 1984

The power
behind the button



British Telecom Share Offer

Totals 3,012 million shares
£ 3,916 million



Notes:

- 1) Institutions are predominantly United Kingdom institutions, but include a small number of overseas institutions, mainly European, who regularly underwrite UK offers.
- 2) Overseas sales represent the shares provisionally allocated to sales in the United States, Canada and Japan.



CONFIDENTIAL: ~~NAMED DISTRIBUTION ONLY~~

File

PRIME MINISTER

The price agreed is right at the top of the range being considered. It would raise £ 3,915 million, before expenses.

AT 14/11

BRITISH TELECOM

MS

Our arrangements for the flotation of British Telecom are now complete.

2 This afternoon the Chancellor of the Exchequer and I met representatives of Kleinwort Benson, our financial advisers, and Hoare Govett, the lead stockbrokers. We agreed that:

i) the shares should be priced at 130p each.

Kleinworts made this recommendation after detailed discussion with the underwriters and leading UK institutions. This price, which is significantly higher than that put to us by Kleinworts when the Pathfinder Prospectus was published on 26 October, reflects the warm reception given to the Pathfinder, the encouraging response from the City to the Chancellor's Autumn Statement and recent buoyancy in the Stock Market;

JH1BKY



ii) the issue should be underwritten on Friday morning. The sponsoring brokers will then seek confirmation from 300 leading institutions that they are prepared to sub-underwrite the offer. Each institution will be allowed to take up to 55% of its allocation into its own portfolios: the remainder is to be made available for the public offering which will begin next week. Until the beginning of this week the institutions had thought that they would be able to retain 60% of their allocations. The Chancellor and I decided that, in view of the encouraging demand from the public for BT shares, this figure should be reduced. The institutions have expressed some disappointment. I believe our action was fully justified - particularly as it will persuade institutions to come into the market for extra shares when dealings start;

iii) despite pressure for larger amounts there should be no increase at this stage in the 415 million shares (13.7% of the offer) set aside for offerings in Canada, Japan and the United States. The enthusiasm in overseas markets has encouraged UK institutions to take a lively interest in the offer. I am in no doubt that the price

JH1BKY



which we agreed earlier today reflects in part that overseas demand;

iv) if the offer is oversubscribed the retail applicant - especially the small shareholder - should be given priority when shares are allocated. The Government has engaged in vigorous efforts in recent months and offered generous inducements to encourage members of the public to consider buying shares in BT. This has elicited a tremendous interest among the public. If necessary we will scale down on the basis of cutting back the largest applications first and giving maximum possible protection to the smaller investor. We shall do everything practicable to avoid a ballot.

3 The price will be made known on Friday morning although I would not be surprised if, given the unprecedented process of consultation in which our advisers have necessarily engaged, the offer price were to become generally known in the City before it is formally announced. Until the formal announcement, however, we must not indicate the price. I am discussing with John Biffen how to present the announcement to Parliament. In case you are asked questions about the



TF is putting briefing to you with the Questions material.

flotation during Question Time tomorrow I have asked my officials to brief yours.

4 I am copying this minute to Nigel Lawson and to Sir Robert Armstrong.

A handwritten signature in blue ink, which appears to read 'Geoffrey Pattie', is written over a faint 'CONFIDENTIAL' watermark. A horizontal line is drawn below the signature.

GEOFFREY PATTIE

November 1984

Postoffice / B. Tel. Privatisation

14 NOV 1984

12 1 2 3 4

COMMUNICATIONS

12 1 2 3 4

Mr Speaker, with permission I would like to make a further statement about the privatisation of British Telecom.

This morning Kleinwort, Benson Limited on behalf of my Right Hon Friend the Secretary of State has offered for sale three thousand and twelve million ordinary shares in British Telecom plc at a price of 130p per share. The issue has been fully underwritten. Discussions are now taking place with a group of financial institutions and I am hopeful that within the next 2 hours the shares being offered in the UK will have been fully applied for. Subject to these discussions the institutions will retain just over half of these shares and the remainder will be made available for public offer next week. Prospectuses will be published on Tuesday 20 November and the time and date for the opening and closing of applications will be 10am on Wednesday 28 November. Copies of the prospectuses will be placed in the Library of the House today.

Of the shares on offer 415 million have been provisionally allocated for issues to be made in New York, Tokyo and Toronto and these are being underwritten by the bank of England.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF7346

Secretary of State for Trade and Industry

14 November 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

BT FLOTATION

Mr Pattie will be minuting the Prime Minister later this evening to report on the outcome of the meeting held at the Treasury earlier today on the BT Flotation. I attach notes for supplementaries for use at Prime Minister's Questions tomorrow. The timing is such that nothing can be said about the price tomorrow, although it is possible, I am afraid, that news of the price will have leaked from the underwriters, and be a matter of public speculation. I should also add that there is a particular need to avoid making any statement which could be regarded as "puffing" the shares. For convenience, I am attaching a copy of my Secretary of State's letter to the Lord President of 8 October which set out the rules which must be observed in making statements about the flotation.

Yours ever,

Callum

M C McCARTHY
Private Secretary

Encls

MR. TURNBULL

BT FLOTATION DINNER:
MONDAY 17 DECEMBER

I spoke to Callum McCarthy. I explained the difficulty. I mentioned that we would be in touch in a week or two with the hope that the Prime Minister would be able to look in at some point during the evening.



Caroline Ryder

13 November 1984

UNCLASSIFIED

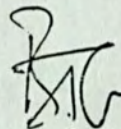
File
FROM: B T GILMORE
9 November 1984

Note
Following criticism over the
purchase of BT shares by K.B. Potts and staff
working at the office have been instructed not to apply for
shares in BGE.

AT 1/6

SHARES IN BRITISH TELECOM (BT)

I attach an Office Notice giving guidance on the propriety of Treasury staff buying shares in British Telecom (BT). For the reasons given in that notice we believe that it could provide grounds for public criticism if you were to buy BT shares when they are issued or in the first month of dealing, and you should not therefore do so.



BRIAN GILMORE

HM TREASURY
OFFICE NOTICE

ON(General)(84) 106
9 November 1984

SHARES IN BRITISH TELECOM (BT)

Shares in British Telecom (BT) are being offered for sale directly to individuals on a wide scale. You may therefore like to be reminded of the rules about Treasury staff buying and dealing in shares.

2. The rules are attached. Applied to BT they mean there are two things you must not do. You must not buy or deal in BT shares if you have, or could be regarded as having, special knowledge affecting the value of the shares. And you must not buy or deal in BT shares if your work involves you in government decisions (like the award of contracts) affecting BT's business.

3. There are people whose position in the Treasury clearly makes it wrong for them to buy BT shares, because to do so could give rise to public criticism. I have so advised them separately. If you have not received that separate minute you must still consider whether it is proper for you to buy BT shares, but there is no prima facie reason that we can see why you are not free, like any member of the public, to do so or not as you wish. Brian Fox or I will be happy to discuss any particular circumstances which may not be clear. But in a matter of propriety like this, if you yourself have any doubt then the right course is not to buy.

BRIAN GILMORE



CC NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU436

Secretary of State for Trade and Industry

5 November 1984

CONFIDENTIAL

Alan Davis Esq.
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

Prime Minister

To note

AT 2/11

Dear Alan,

BT SHARE ISSUE

Thank you for enquiry concerning whether there was any difficulty in Ministers acquiring BT shares in the course of the forthcoming share issue. In view of the applicability of this question more widely, I am copying this reply to the Private Secretaries to all Cabinet Ministers, with the request that they should copy it to Ministers within their Departments as appropriate. In preparing this reply, we have consulted Sir Robert Armstrong's office, to whom this is also copied.

The question essentially concerns two points: whether it is proper for Ministers to purchase shares in the BT issue, and, secondly, what are the constraints, either legal or of propriety, in respect of the holding of BT shares.

On the first question, we take the view that it would be ill-advised for Ministers in this Department to purchase shares in the forthcoming BT issue. This is because otherwise we risk a potential conflict of interest where Ministers are both shareholders themselves and are responsible for, or associated directly with, decisions which will affect the circumstances of share holders immediately following the flotation, either through the share price, or matters affecting the regulation of BT or its competitors and suppliers. For this reason, we believe that the same advice should apply in respect of Treasury Ministers who are concerned with the privatisation programme, and to the Prime Minister.

The position is less clear cut in the case of Ministers not directly concerned with the privatisation of BT. The guiding principle is that laid down in Questions of Procedure for Ministers that Ministers "must so order their affairs that no

CONFIDENTIAL



CONFIDENTIAL

conflict arises, or appears to arise, between their private interests and public duties" and specific guidance in share-holdings is contained in paragraphs 72 and 73.

Paragraph 73 says that Ministers should "scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities". The decision to privatise British Telecom, has, of course, been the subject of Cabinet and Cabinet Committee discussion and this has inevitably involved consideration of BT's prospects. Although many Ministers will not have had access to detailed financial information there is a danger that Ministers might be thought to have had access to inside knowledge. There is therefore some risk of embarrassment and the safest course would be for Ministers not to purchase shares, at least during the initial flotation.

I should now turn to the second question, concerning the subsequent holding of BT shares. Here, of course, the issues are very like those which would apply to the holding of any securities, but particularly shares held in any company where the Government continued to be a substantial minority share-holder, and to have substantial contractual and regulatory dealings. The legal issues are quite straightforward in broad outline;

i it is a criminal offence ("insider dealing") for a Crown servant (i.e a Minister or a civil servant) who has, because of his position, price sensitive information about a company's securities, to deal in them on the Stock Exchange (here or abroad) unless he can prove he did not intend to take advantage of the information. Actually applying for BT shares does not fall within this (because, in the view of our solicitors, it is not done on the Stock Exchange - it is, rather, a straight contract with the Secretary of State). However, it is most unlikely that a Minister (or civil servant) other than one concerned with the regulation of or contacts with BT or its competitors, will have such information because of his position per se.

ii If Ministers (or civil servants) are regulating BT or one of its competitors, or suppliers, or (conceivably), customers, a share holding in BT may well be evidence of bias. Bias invalidates administrative acts and may well found an action in damages against the Crown.

Here again, I should draw your attention to the advice contained in Questions of Procedure, and particularly to the paragraphs referred to above.

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CONFIDENTIAL

I hope you will understand that, in sum, the advice which we have to give is not categorical; whether or not Ministers think it would be appropriate in their circumstances for them to consider purchasing BT shares must be a matter for them. In deciding, Ministers will wish to take account of the advice contained in Questions of Procedure for Ministers, the considerations that I have mentioned above, and the involvement or lack of it which they may have with matters currently or prospectively affecting British Telecom. It should, however, be borne in mind that it is as important to avoid the appearance of conflict of interest as to avoid actual conflict and if in doubt it is usually better to err on the side of safety.

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

CONFIDENTIAL

6 NOV 1987

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10 DOWNING STREET

From the Private Secretary

1 November 1984

THE AUTUMN STATEMENT AND BT

In his minute of 26 October, Mr. Pattie requested that the options for the Autumn Statement and BT be reviewed in the middle of this week. The Prime Minister has considered the position on public expenditure and it remains her wish that the outstanding issues on public expenditure be settled before or at the 8 November Cabinet meeting, so that the Autumn Statement can be made on 12 November, in order to clear the way for the BT launch on 16 November.

This cannot, however, be an absolute assurance as resolution of the outstanding issues will depend on agreement being reached with those colleagues whose programmes are still to be settled and on overall agreement being achieved at the Cabinet meeting.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Neil McMillan, Esq.,
Department of Trade and Industry



NBSM
AT 29/10
WTD

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

John Moore Esq MP
Financial Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

29 October 1984

Dear John

BT SALE

Thank you for your letter of 17 October about an exchange of correspondence about the BT sale. I am writing now to confirm what your office was advised at the time, namely that it was not possible to include in the letter that I sent to Michael Grylls a sentence along the lines you suggested. Such a sentence would have gone beyond what the Director General of Fair Trading regards as his position in relation to the issue of material influence in merger situations and would have had undesirable implications for mergers policy generally. I enclose a copy of the Press Notice which we issued to make the exchange of letters public.

I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

John
[Signature]

GEOFFREY PATTIE

OC4/OC4AAM

1 Victoria Street, SW1H 0ET Press Office: 01-215 3793
Out of hours: 01-215 7877

Ref: 593
22 October 1984

SUBSTANTIAL SHAREHOLDINGS IN BRITISH TELECOM PLC

Mr Geoffrey Pattie MP, Minister of State for Industry and Information Technology, has replied to a letter from Mr Michael Grylls MP (Surrey North West) about the Government's position in relation to an acquisition of a substantial shareholding in British Telecom (BT) plc.

Mr Pattie drew attention to the provision in the Articles of Association of BT under which no one shareholder (other than the Government) will be able to own more than 15 per cent of the shares of BT, and stated the Government's intention to place a limit of 10 per cent on the proportion of shares taken up by an individual applicant on flotation.

Mr Pattie also pointed out that, in view of the Government's intention not normally to exercise its rights as a shareholder, shareholdings in BT would likely to be counted for double their value by the Director General of Fair Trading in considering whether a merger situation under the Fair Trading Act exists and therefore whether he should advise the Secretary of State on a reference to the Monopolies and Mergers Commission.

The texts of Mr Grylls' letter and of Mr Pattie's reply are attached.

Note for Editors

The Rt Hon Norman Tebbit MP, Secretary of State for Trade and Industry, made a statement on the Government's review of mergers policy on July 5, 1984 (DTI Press Notice Number 400).

Text of Mr Michael Grylls' letter of 16 October to Mr Pattie

"You will have seen reports in the press that companies with commercial relationships with BT may well be interested in acquiring a substantial shareholding, possibly as much as 15 per cent, in British Telecom. Such a shareholding would raise substantial competition issues. I would be grateful if you could let me know what the Government would do if these reports were borne out."

Text of Mr Pattie's reply of 19 October

"Thank you for your letter of 16 October.

As you know, under the Articles of Association of BT no one shareholder (other than the Government) will be able to own 15 per cent or more of the shares of the company. We also intend that when the flotation takes place no more than 10 per cent of the shares are taken up by an individual applicant or group of applicants acting in concert.

You say that a shareholding by a company with commercial relationships with BT would raise substantial issues of competition. I cannot of course comment on a hypothetical case. But any substantial acquisition of shares in BT would fall to be considered under the merger provisions of the Fair Trading Act 1973. Under the Act a merger situation can arise where (provided either the assets or the market share tests is met) a company acquires the ability materially to influence the policy of another company. There is no specific point at which a shareholding confers such ability. The Director General of Fair Trading, who advises the Secretary of State on mergers, takes account in a particular case of all the circumstances, including the position in relation to other shareholdings in the company. In the case of BT, the Government has informed the company that it does not intend to use its rights as an ordinary shareholder to intervene in the commercial decisions of BT and that it does

not expect normally to vote its shareholding on resolutions ed at general meetings, although it retains the power to do so. On this basis, the Director General of Fair Trading would be likely to leave the Government's shareholding out of account in considering whether another shareholder was able materially to influence the policy of the company. Accordingly, so long as the Government retains about half the shares in a company, (on the basis set out in this paragraph), the shares of another shareholder would be likely to be counted for double their value by the Director General.

I should emphasise that whether or not a reference should be made is for the Secretary of State to decide, on the merits of the particular case and in the light of the advice of the Director General. The Secretary of State has made it clear that his decisions on references will be taken primarily on competition grounds."

29 OCT 1961



file No 3

10 DOWNING STREET

From the Private Secretary

SECRET AND PERSONAL

29 October 1984

AUTUMN STATEMENT AND BT

The Prime Minister has seen the Chancellor's minute of 24 October and Mr. Pattie's minute of 26 October. She has noted the conclusions reached about the timing of the Autumn Statement in relation to the BT Impact Day. In particular, she has noted that it will be necessary to review progress in the middle of the coming week.

I am copying this minute to Janet Lewis-Jones (Lord President's Office), Callum McCarthy (Department of Trade and Industry), Henry Steel (Law Officers' Department), Neil McMillan (Mr. Pattie's Office, DTI) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

David Peretz, Esq.,
H.M. Treasury.

SECRET AND PERSONAL



SECRET AND PERSONAL

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②
PRIME MINISTER

To note AF 26/10

THE AUTUMN STATEMENT AND BT

I fully support the conclusions the Chancellor reaches in his minute to you of 24 October. Preparations for the BT flotation have been making good progress and the Pathfinder Prospectus is being published today as planned. The stock market's recovery since last week's sharp fall has been encouraging, but I think it would only be prudent to assume that market sentiment may continue to be fragile throughout the period leading up to the planned BT impact day on 16 November.

Against that background, it would be a serious setback to our BT plans if the Autumn Statement could not be made by 12 November as the Chancellor plans. I am sure we should not underestimate the severity of the problems we should face if we had to resort to either of the options he sets out in para 10 of his minute. Either would be liable to cause serious concern in the market and add greatly to the difficulty of carrying through the unprecedentedly big BT issue. It seems clear that Martin Jacomb's advice would be to accept that in those circumstances the Autumn Statement should follow Impact Day rather than that Impact Day should itself be deferred; We need not decide that now, but quite apart from the legal questions to which the Chancellor drew attention in the Annex to his minute, I would be very concerned at the political risks we should be running if we had encouraged large numbers of small investors to buy BT shares and the share price were then to move to a significant discount after a (delayed) Autumn Statement had been made.

I am not in a position to follow the progress of MISC 106. I strongly agree with the Chancellor, however, that we should need to review the options with you no later than 31 October, if by then there still seemed to be some risk that the Autumn Statement might not be able to be made by 12 November.

I am copying this to Nigel Lawson, Willie Whitelaw, Michael Havers and Sir Robert Armstrong.

JEP

GEOFFREY PATTIE

OC4 OC4AAP

26 October 1984

SECRET AND PERSONAL

Prime Minister ②

AT 25/10

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

THE AUTUMN STATEMENT AND BT

When we spoke last week I explained the broad position I have reached on the timing of the Autumn Statement in relation to the BT Impact Day. I have discussed this with Geoffrey Pattie, and with Martin Jacomb of Kleinwort Benson. I am writing to confirm my conclusions.

2. As you know, my original concern about the time-table was based on Kleinworts' repeated view that the Autumn Statement should be published either before Impact Day (provisionally fixed for 16 November) or after the start of share dealings on 3 December, but not between those dates, and that if Impact Day had to be put back a week an early decision was preferable to the risk of a possible last-minute postponement.

3. When Geoffrey Pattie and I saw Martin Jacomb last week a rather different position emerged.

4. Kleinworts said that their room for manoeuvre had all but disappeared and the option of postponing Impact Day without damaging the whole BT operation was effectively closed. They would only contemplate last-minute postponement for unexpected market reasons. They are locked into a tight printing schedule; television and Press advertising has been reserved and could not be rearranged; and they say it is simply not now possible to rearrange a world-wide operation without damaging the sale.



5. If there is a delay in the Autumn Statement they would - given the choice - greatly prefer it to follow shortly after Impact Day rather than that Impact Day was put back a week. And they now argue that there would be no legal problems over the BT Prospectus so long as the Autumn Statement contains no unexpected bad news of significance to the markets. (Martin Jacomb identified as especially significant in this context this year's PSBR, next year's fiscal prospect and the inflation forecast). This means that any bad news would need to be in the market before the BT Impact Day.

6. If this could be achieved, it would then allow the final public expenditure Cabinet to be put back, if in the last resort it proves necessary, to 15 or 22 November, with the Autumn Statement following in either case a few days later. From the point of view of BT, the later date is much to be preferred so as to distance the Autumn Statement a little further from BT pricing decisions on 15 November.

7. Where does this leave us?

8. First, my further talks have reinforced the enormous advantage, from every point of view, of trying to secure an early and successful outcome on public spending by the 8 November Cabinet. With Willie Whitelaw's help, we need to do everything in our power to obtain that result.

9. I would then plan to make my Statement to the House, and simultaneously publish the Autumn Statement, on Monday 12 November, ahead of the probable debate on the economy the following day. The printing time-table



will be extremely tight, but with colleagues' co-operation in settling the detailed text and figures, that should just be manageable.

10. Second, we shall need to take stock of the situation in about a week's time, in the light of progress by then on public expenditure. If enough progress had been made to offer a reasonably good chance of settling public expenditure on 8 November, then the present time-table can stand. But if we were to judge that more time was needed, we should have urgently to choose between:

(a) putting back Impact Day by a week (if that still seemed feasible);

(b) putting back the Autumn Statement so that it came one or more, probably two, weeks after Impact Day.

11. Neither of these contingency plans would be at all easy or free from risk. It would, as I say, be far preferable to achieve a satisfactory public expenditure outcome by 8 November. But Michael Havers agrees that the fallback position in paragraph 11(b) is in principle viable, subject to the points set out in the Annex.

12. Geoffrey Pattie agrees with these conclusions.

13. I am sending a copy of this minute to Willie Whitelaw, Michael Havers and Geoffrey Pattie, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.', written in a cursive style.

[N.L.]

24 October 1984

Enc:

**REQUIREMENTS IF AUTUMN STATEMENT FOLLOWS IMPACT DAY
(FALLBACK POSITION)**

1. The legal advice, endorsed by the Attorney General, is that in addition to the duty to disclose any material information and also not to make any material omissions in the prospectus, HMG is under a duty to disclose any information which would falsify any conclusion or inference reasonably to be drawn from the prospectus.
2. If this condition is not met, the underwriters could argue that they were released from the agreement; and investors could argue that they had been misled into applying for BT shares and could sue. But if the condition is met, these actions are unlikely to be taken and if they were the Government would have a strong defence.
3. To ensure that the condition is met and that the fallback in paragraph 11(b) of the minute remains available:
 - (a) The Chancellor will need to make public the prospects in 1984-85 for the PSBR and perhaps also the RPI;
 - (b) officials will ensure by talking to BT that the Autumn Industry Act forecast will not invalidate the 1984-85 profit forecast in the BT Prospectus;
 - (c) officials will check that the Autumn Statement will neither contain unexpected bad news for the markets nor omit material facts if they are known to the Government.

The process at (c) could still reveal snags that would block off the fallback so that slippage on public expenditure decisions would mean postponement of BT.



10 DOWNING STREET

From the Private Secretary

23 October 1984

BT Floatation: Executive and Employee Share Option Schemes

The Prime Minister has seen Mr Pattie's minute of 22 October and the Secretary of State for Transport's letter to the Financial Secretary of the same date. She agrees, subject to the conditions set out in paragraph 3 of the Chancellor's minute, that BT should be allowed to put in place executive and employee share option schemes before privatisation. She recognises that this is likely to mean that this practice will be followed in future privatisations.

I am copying this letter to David Peretz (H M Treasury), Michael Reidy (Department of Energy), Dinah Nicholls (Department of Transport) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Neil McMillan, Esq.,
Department of Trade and Industry

file
cc Peter Waring
SS

①
PRIME MINISTER

Prior to Jaguar, share option schemes were put in place after privatisation, thereby distancing government from their terms. The senior executives of Jaguar were able to exploit special circumstances to push through a scheme before privatisation but it was intended that this should not create a precedent. BT are pressing for a scheme before privatisation and DTI are prepared to accede to this.

Mr. Ridley is opposed to this as he would be unable to hold the line against BA. The Chancellor and Policy Unit are prepared to agree, arguing that the market regards such deals as favourable for future business prospects. The Chancellor's only reservation is whether the price on which the option is based should be the average of several days rather than a single day.

Agree DTI's proposal subject to the Chancellor's reservation?

W
DT

22 October 1984

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

BRITISH TELECOM FLOTATION - EXECUTIVE AND EMPLOYEE
SHARE OPTION SCHEMES

As you will have seen from Geoffrey Pattie's letter of 19 October to John Moore, the BT Board are keen that an executive share option scheme should be put in place before the BT flotation. We resisted such schemes in previous privatisations until the BL Board, against our better judgement, committed us to introducing one for Jaguar. Permitting something similar for BT will make it impossible to resist the introduction of these schemes in future privatisations and you will therefore want to be aware of the implications before any decision is taken to proceed in the case of BT.

2. Generally, we wish to encourage share option schemes and the last Budget enhanced their attractiveness. Coupling them with privatisation does, however, carry the risk of criticism that the Government is placing large potential benefits in the hands of a small number of senior executives. Because of this, we have hitherto maintained that such schemes may be trailed in the prospectus but should not be implemented until approved by the privatised company's new shareholders.

3. In the case of BT, we are advised that having share option schemes in place at the point of privatisation would help the flotation and should mean



that the taxpayer secures a better price for the shares. It is clearly of the first importance that the BT flotation is a success and I have therefore weighed this factor against the possible disadvantages. Bearing in mind that the Jaguar decision did not in the event give rise to criticism, I consider that on balance we should allow BT to adopt an executive share option scheme prior to privatisation, provided that the following conditions are observed:

(i) there should also be an employee-share scheme for BT employees generally;

(ii) options should not be granted at the offer price but at some subsequent date reasonably distanced from the flotation. A price averaged over some days' trading might be preferable;

(iii) Inland Revenue and IPC guidelines must be followed in full and the schemes should not be seen to be unusually generous.

4. I accept that in practice this means that all future privatisations, including BA, are likely to include similar schemes.

5. I am sending a copy of this minute to Peter Walker, Nicholas Ridley and Geoffrey Pattie and to Sir Robert Armstrong.

Margaret O'Hara

N.L.

22 October 1984

*(Approved by de Clancello
and signed in his absence)*

RESTRICTED

MR TURNBULL

22 October 1984

BT FLOTATION: EXECUTIVE AND EMPLOYEE SHARE SCHEMES

Treasury are opposing DTI bouncing through outline share schemes for senior executives and rank and file employees. They now accept the proposal technically complies with the IPC guidelines.

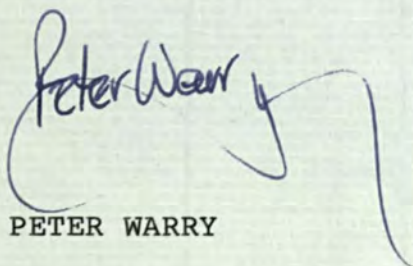
The employee share scheme is unlikely to create any political furore and should be allowed through on the nod.

The senior executive scheme could be held out as a handsome present on leaving public ownership. However, no details will be finalised for individual directors until it is in the private sector; and they will not be able to exercise the option at the offer price but that prevailing a few weeks later.

The incentive scheme will slightly help in the sale, and will motivate senior management.

These arguments will apply to all similar privatisations. We believe the benefits outweigh any mudslinging damage, and therefore the precedent to be created by BT, and by Jaguar already, cannot be undesirable.

We would support approval of both share schemes.


PETER WARRY

RESTRICTED



COMMERCIAL IN CONFIDENCE

PRIME MINISTER

BT FLOTATION: EXECUTIVE AND EMPLOYEE SHARE OPTION SCHEMES

British Telecom have put to us proposals for an Executive Share Option Scheme and also an Employee Sharesave Scheme. BT wish to adopt both schemes while we are sole shareholder, and to operate them immediately after next month's flotation - basing the scheme on the Offer for Sale price. The Executive Option Scheme would be for 200 senior employees (including the full-time directors chosen by the Board, and would offer them an option of up to 4 times their annual salary to be exercised between 3 years and 10 years after the Offer for Sale. While believing strongly the need for such a scheme, I am uncertain that it should be adopted exactly as proposed.

Following the Jaguar flotation, colleagues have come to accept that such schemes should only be put in place by the new shareholders after the flotation, and should not operate upon the Offer for Sale price. This would have the effect in BT's case of the option not being available to senior executives for at least 9 months after the Offer for Sale, because of the time it will take to compile the BT register and because of certain rules such schemes must have.

In view of colleagues' concern, but also because I felt that as a Government we wished to encourage management motivation by the use of such schemes, I have put forward a compromise solution. This is that we agree to adopt these schemes while we are sole shareholder, but that we remove what seems to me to be the most undesirable feature of the proposed arrangements - dependence upon the price of BT shares at the time of Offer for Sale. Under my proposal the initial grant of the options would take place shortly after the flotation, and would be based on a price prevailing on some day soon after the start of trading.

I believe that it is very important that we accept this compromise. Such schemes are common in the private sector, this scheme will not cause surprise in the City, and it is very important that we motivate BT's senior management now. Their enthusiastic co-operation over the next critical month will be vital to the success of the flotation. I think it is important we give them our clear backing by making this scheme available. I also believe that we can proceed on this basis while agreeing that all future cases should be considered on their merits case-by-case.

This is not accurate. It would be more correct to say "Before Jaguar, colleagues had..."



I know that you are aware of the urgency of this. I hope we can have a favourable view by Tuesday morning so that this arrangement can be incorporated in the "Pathfinder" Prospectus to be published on Friday.

I am sending copies of this letter to the Secretaries of State for Energy and Transport and to the Chancellor of the Exchequer.

Neil Merrett

for GEOFFREY PATTIE

22 October 1984

*approved by the Minister
+ signed in his absence*

070

CCND



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Andrew Turnbull Esq
10 Downing Street
London
SW1

22 October 1984

Dear Andrew

BRITISH TELECOM FLOTATION - EXECUTIVE AND
EMPLOYEE SHARE OPTION SCHEMES

I understand from Margaret O'Mara in the
Chancellor's Office that the Prime Minister
is being asked to decide on this matter tonight.

/ I am, therefore, attaching a copy of a letter
that my Secretary of State has sent this morning
to the Financial Secretary, setting out his
views.

yours sincerely,

Henry Derwent

HENRY DERWENT
Private Secretary



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

John Moore Esq MP
Financial Secretary
HM Treasury
Parliament Street
London
SW1

22 October 1984

Dear Financial Secretary

BRITISH TELECOM FLOTATION - EXECUTIVE AND EMPLOYEE SHARE OPTION SCHEMES

Geoffrey Pattie sent me a copy of his letter of 16 October in which he sought your agreement to a proposal that in advance of the British Telecom flotation the Government should approve executive and employee share option schemes.

I do not know the details of the British Telecom proposals. But I am afraid that I have serious reservations about the suggestion to put them in place before privatisation. When a similar issue arose in relation to the Jaguar sale I made the point both that such matters were properly left for the approval of the company's new shareholders after privatisation, and that any approval of share option schemes in advance of a sale could have serious implications for future privatisations, in particular British Airways. In the event, the Jaguar schemes were approved before sale, but this was on the clear understanding that the case would not provide a precedent for future sales.

Both my points arise in relation to the present proposal. If anything this proposal causes me greater concern, both because, unlike Jaguar, the British Telecom sale is being handled directly by the Government, and because we are much nearer to the British Airways sale. Moreover British Airways have put us on notice that they will submit key executive share option schemes for approval prior to privatisation; and, following our correspondence in June, we have taken the firm line with them that such schemes should not be introduced until they have been approved by the shareholders after privatisation. Any concession on British Telecom, whatever terms might be agreed, would make this position virtually impossible to maintain. I do not find it acceptable that we should be asked to disregard the understanding we reached that the Jaguar sale should not provide a precedent, and given the implications for British Airways I hope that we can resist very strongly any proposal that the Government should approve share option schemes for British Telecom in advance of flotation.

I am copying this letter to Peter Walker and to Geoffrey Pattie.

yours sincerely

H. C. [unclear] (Private Secretary)

for NICHOLAS RIDLEY

(Approved by the Secretary of State
but signed in his absence.)

22 OCT 1984

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22 OCT 1984

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Handwritten scribbles or marks.



Fili

MR. TURNBULL

BRITISH TELECOM

Geoffrey Pattie had a word with the Prime Minister about this late on Friday. The particular issue was share options for management. He had agreed with Jefferson that there would be such a scheme, the fact of which would be announced in the prospectus. But the actual allocation of shares would be made only some six weeks or so after flotation by the then Board, at the prices then prevailing (following the Inland Revenue rule of taking the average price over the preceding three days). He hoped to persuade his Ministerial colleagues to accept this on Monday and would talk to them individually over the weekend. But in the event of disagreement he would need to appeal to the Prime Minister. The matter was urgent because the prospectus had to go to print on Tuesday.

The Prime Minister took note.

C.D.P.

(C.D. POWELL)

20 October 1984

VC2AAC



NMPM AT 22/10

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

John Moore Esq MP
Financial Secretary
HM Treasury
Parliament Street

AT 8/1

HMT + DTI are
trying to sort this
out
19 October 1984

Dear John,

BT FLOTATION: EXECUTIVE AND EMPLOYEE SHARE SCHEMES

I am writing to confirm the understanding we reached yesterday on the proposal in my letter of 16 October to allow BT to institute before flotation both an employee and senior executive share option scheme in principle.

We agreed that we would be open to criticism if we appeared to be endorsing schemes that would seem to be over-generous and subject to criticism on the grounds that they are linked to the offer price. I said I thought that in the special circumstances of the BT case - where the offer for sale will be of such massive proportions - the proposals set out in my letter were defensible.

You felt that there were no acceptable watered down variants and resisted the proposal on the grounds that it would be presented as a precedent for the future, would not be in line with IPC provisions, and BT would have the opportunity to change it subsequently. On the other hand schemes such as these are now totally commonplace particularly following the action which you were able to take in the last Budget and would fully meet some of the enquiries which have come our way. There is no doubt in my mind that the inference will be drawn by institutional investors that the transformation will be complete and that BT will have all the hallmarks of a progressive company.

You said that Treasury would not oppose these proposals on financial grounds but as the Chancellor believes that they would represent a change of the general policy the final decision would have to be taken on political grounds by collective discussion, possibly at E(A).

There is no question that BT management are already strongly behind our privatisation plans. But the inclusion of these schemes will allow management to identify more closely as shareholders themselves and will put the finishing touches to the creation of the sort of dynamic and entrepreneurial management

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which you and I both want to see. As I said in my letter of 16 October I am not asking for any approvals to share options for individual executives in advance of the flotation. I am also proposing that the option should not be available to the executive to buy at the offer price; the option will be to buy at the rate applicable on one particular day, a few weeks after the Offer for Sale.

This is, I fear, a case where we must move very quickly indeed since the decision needs to go into next week's pathfinder prospectus and to be adopted at an Extraordinary General Meeting on Monday. I shall be seeking discussion on Monday.

I am copying this letter to members of E(A) together with a copy of my earlier letter.

John

Geoffrey

GEOFFREY PATTIE



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

John Moore Esq MP
Financial Secretary
HM Treasury
Parliament Street
SW1

16 October 1984

BT FLOTATION: EXECUTIVE AND EMPLOYEE SHARE SCHEMES

I was most grateful to you for finding the time to see Jeffrey Sterling and me yesterday to discuss this subject.

In writing to you I am well aware of Norman Tebbit's undertaking at the time of the Jaguar flotation that the executive share option scheme in that case was not to be a precedent for future privatisations.

My proposal, departing from Enterprise Oil, is that we as shareholders should give approval before flotation to both an employee and a senior executive share option scheme in principle. This would of course be subject to Inland Revenue approval and the implementation by a Board share options committee composed of members of the Chairman and the non-executive directors. I am persuaded by the need to do this by the three considerations that follow:-

1 Schemes of this kind are commonplace in private industry now. They are readily approved by the general meetings of the companies in question. The institutions, who will be the dominant shareholders in BT, can be expected to welcome any scheme which clearly falls within the IPC guidelines. The approval therefore by the sole shareholder prior to sale will not therefore be viewed by the institutions as in any way odd or controversial.

2 There is a need for BT to have these schemes - the one for ordinary employees quite as much as the one for senior executives - in place now. This is a part of the transformation Sir George Jefferson is seeking to achieve in

OC2/OC2ABE



the inherited culture of BT. He has lost one recent recruit to his board - Colin Crook - to another employer in the last few days. I am not saying that in the absence of any such scheme there will be a wholesale exodus of BT directors and senior executives to other firms but introducing such a scheme right away would be a positive encouragement to entrepreneurial effort and the attraction of outside talent.

3 If we do not approve a scheme now BT will not get the benefits for nine months or longer. The reason for this is that the IPC guidelines provide a window for the giving of options for a six week period following the Offer for Sale and another following the publication of the next report and accounts in July 1985. There is no way by which an EGM could be convened in time to permit the company to use the first window - the shareholder register will not by then have been compiled. We need therefore to galvanize BT now.

You will see that I am not asking for any approvals to share options for individual executives in advance of the flotation. I am also proposing that the option should not be available to the executive to buy at the offer price; the option will be to buy at the rate applicable on one particular day, a few weeks after the Offer for Sale. This would get over the particular difficulty that would exist in presentational terms if the directors had a personal interest in the issue being underpriced.

I recommend in short that we do put in place both those schemes in advance of flotation that we ensure they meet the IPC and Revenue guidelines; but that the price at which the senior executives schemes should be related should be as at a date some days or weeks after the opening of dealings.

I do hope you can see your way to agree with my proposal. I think it is a positive step much within your own thinking on using stock options in the interest of the economy.

Because of the possible repercussions on other privatisations I am sending copies of my letter to the Secretaries of State for Energy and for Transport.

John

Geoffrey Pattie

GEOFFREY PATTIE



*3/12/84 purchase
not chase
AT
17/10*

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
Minister of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

17 October 1984

Dear Geoffrey,

I am replying to Norman Tebbit's letter to the Chancellor of 10 October which attached a draft exchange of correspondence with a backbencher dealing with certain competition aspects of the BT sale.

I endorse the general approach to informing the public about the likely attitude of the Office of Fair Trading to the acquisition of substantial holdings in BT. Nevertheless I am concerned by the absence of any quantitative indication of the size of holding which would be acceptable. We have agreed that there should be a limit of 10 per cent on allocations in the initial issue to individual or concerted bidders. I think it is very important that the draft reply should be able to say that it is unlikely that the OFT would consider a holding up to 10 per cent as "material influence".

As far as I know there is no reason to believe that they would and moreover this would be consistent with the Director General of OFTEL's views. Companies wishing to acquire a 10 per cent holding would then not be discouraged from tying up substantial funds in the somewhat lengthy process of applying for shares in the issue. I am sure it is important that they should not be so discouraged. Of course any further acquisitions after the sale between 10 and 15 per cent would be at their own risk. But as the draft at present stands they cannot even be certain that they can safely acquire up to 10 per cent and this is a real drawback.

Some such phrase as: 'It would be unlikely that the Director General of Fair Trading would consider a holding up to 10 per cent as giving rise to material influence' is all that is needed. I would very much hope he would feel able to agree to this.

I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

John Moore

JOHN MOORE

Post & Telecommunications : Future of Post Office & B.T.
Part 9.

7 OCT 1984

10 11 12 1
9 8 7 3 2
6 5 4

CONFIDENTIAL

MJTAG

✓



10 DOWNING STREET

From the Private Secretary

15 October 1984

Proposal from BT and IBM for a Joint Venture to Provide
Managed Data Network Services

The Prime Minister has seen Mr. Pattie's minute of 12 October. She is content with his proposal to turn down the application from BT and IBM for a joint venture to provide managed data network services.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Neil McMillan Esq
Department of Trade and Industry.

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(1)
PRIME MINISTER

DTI have come down against allowing BT and IBM to undertake a joint venture to provide Value Added Network Services (e.g. ticketing for airlines, point of sale billing for retailing).

Put crudely, BT would have made more money and more would have been raised from privatisation if it had gone in with IBM. But DTI, rightly in my view, have given priority to the competition arrangements - and buttressed the authority of the Director of OFTEL in so doing.

I understand the Chancellor, though irritated at the lack of consultation, is prepared to go along with DTI.

Agree DTI proposals?

AT

Yes not

12 October 1984



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and
MARKET SENSITIVE

PRIME MINISTER

PROPOSAL FROM BT AND IBM FOR A JOINT VENTURE TO PROVIDE
MANAGED DATA NETWORK SERVICES

I am writing on Norman Tebbit's behalf to let you know of how he had intended to deal with the difficult problem of the proposal from BT and IBM for a joint venture to provide managed data network services, which would require a licence from us.

2 The Secretary of State has a statutory duty to license services for which there is a demand. In practice, having satisfied ourselves that this demand exists, we have only two options: either to license the joint venture, on conditions which would attempt to provide safeguards against some of the risks associated with it; or to license IBM and BT separately. There is an attraction in agreeing to license the joint venture, as a means of rapidly providing services which are in demand. IBM and BT have suggested that arrangements could be devised to ensure that the



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and
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venture would operate at arms length from both its parents, in such a way as to secure effective competition between the joint venture and BT's other services. But there is clearly a risk that the joint venture, based on two such dominant companies, would swiftly achieve a pre-eminent position in the market. If that were to happen, others would be deterred from entering the market place. I would regard this as unhealthy. This is not only my view: it is also the clear view of the newly appointed Director General of Telecommunications. I believe that it would be damaging if, on a subject of such importance and at such an early stage of his work, I were to run counter to his views. I have also formally sought the views of interested parties. These are now in, and show, as well as considerable demand for a joint service of this type, a clear balance against licensing the joint venture.

3 For these reasons, and despite the strong arguments advanced by IBM and BT, we have decided against licensing the joint venture. In my view it is better to ensure the early provision of services by licensing IBM and BT separately to provide services in competition with each other. I intend to make clear my willingness to license other suitably qualified entrants to this particular market, whenever they come forward.



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4 Competition should, in current market circumstances, be paramount in our considerations. The licensing of the joint venture would inevitably be reviewed as inconsistent with our competition policy in telecommunications and could be seen to have been governed by other considerations to do with the BT flotation.

5 In coming to our decision, we have also been influenced by the undoubted fact that to grant a licence to the joint venture would, whatever the conditions imposed therein, hinder rather than advance our drive to establish internationally agreed OSI standards. To safeguard the development of these I shall require each licensee - including IBM and BT - to provide connections to those users who have adopted Open System Interconnect (OSI) standards. This obligation will be a developing one, moving in line with the process of international agreement on standards, which still has some way to go before the full range of services can be provided to agreed specification. This is consistent with our initiatives taken earlier this year to advance the cause of agreed IT standards in Europe, particularly in relation to OSI and will be welcomed by the Commission, on whose behalf Commissioner Davignon wrote to Norman expressing his concern that we should not come to a decision to support a joint venture based on non-OSI standards.



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6 We recognize, of course, that refusal to agree to the joint venture will be considered a blow by both IBM and BT, and must have some adverse effect on the public perception of BT's prospects. We believe that any damage so caused to the flotation is containable. We intend to take care to explain that joint ventures between BT and others, particularly as circumstances change, are not ruled out as a matter of principle, but that the Government's policy of encouraging competition in this and other telecommunication markets must take priority in this case over other considerations. BT will be free to enter the market for managed data network services, despite a substantial body of opinion that BT should be excluded from it altogether. I have no doubt that Sir George Jefferson will not like this decision, but I hope to persuade him that it is contrary to both our interests to exaggerate its effect. Rather we should concentrate on expressions of confidence that BT, by themselves, will be able to do well in this market place. Incidentally, it will come as no surprise to potential American investors that a joint venture between IBM and BT is not to be permitted. There would be no question of licensing such a combination of market power in the United States.



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7 It is very important that we make an early announcement on this subject, well in advance of the BT flotation. I therefore propose to see Sir George Jefferson and Sir Eddie Nixon on Monday morning to explain the decision to them personally, and to issue the attached press statement later on the same day. There is intense speculation at the moment as to what our decision is; and I have no doubt that both IBM and BT and the press will be probing further over the weekend. I shall be grateful if the most stringent steps could therefore be taken to safeguard the confidentiality of this decision until I make it public.

8 I am copying this minute to Geoffrey Howe, Nigel Lawson and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Pattie'.

GEOFFREY PATTIE

12 October 1984

Department of Trade and Industry

JH4AOF



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MARKET SENSITIVE

PRESS STATEMENT

GOVERNMENT'S POLICY TOWARDS VALUE ADDED TELECOMMUNICATION
SERVICES

The following is the text of a Statement issued by the
Department of Trade and Industry on Monday 15 October:

The Secretary of State has considered the licensing of value added telecommunication services in the light of the new licensing provisions in the Telecommunications Act and the proposal by British Telecommunications plc and IBM (UK) Ltd to provide managed data network services through a joint venture.

The Government wish to encourage the exploitation of the opportunities created by the convergence of telecommunications and computer technology for the provision of new value added telecommunication services. Proposals by BT, IBM and others suggest that there is a large potential demand in the UK for such services. The Government intend that this demand should be met and that users should be provided with a variety of good quality services. The Government believe that this can best be secured by promoting competition between providers and that competition will be advanced by use of the emerging Open Systems Interconnect standards.

The Government wish to ensure that British Telecommunications can compete fully and effectively - and in appropriate circumstances in partnership with others - in the market for new services. The Government would also see advantage in the participation in this market place of companies with



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overseas parents.

Managed data network services involve the conveyance of messages on behalf of third parties over circuits provided by public telecommunications operators and the addition of value by for example the provision of network management facilities, security services and traffic analysis. The provision of such services to others is not authorised under the existing British Telecom and proposed Mercury public telecommunications operator licences. These limit BT and Mercury to providing the basic telecommunication service of conveying messages from point to point without adding value. Nor is the provision of such services authorised under the General Licence for Value Added Network Services, which limits VANS providers to services which involve the storage, processing or multi-addressing of telecommunication messages. It will therefore be necessary to grant special licences under section 7 of the Telecommunications Act to those wishing to provide managed data network services.

The BT and IBM proposal, which envisaged the provision of such services through a jointly owned company, has been the subject of a recent consultation exercise initiated by the Secretary of State for Trade and Industry on 31 July. He has considered the many views expressed, including in particular the advice of the Director General of Telecommunications. Many potential users expressed support for the early introduction of services such as the joint venture would provide. Others expressed the view that the proposed joint venture would be inconsistent with the objective of introducing competition into telecommunications. It would combine the efforts of the two major potential market entrants who would otherwise be expected to enter the market separately to provide competing services. It also appears likely from the consultation exercise that a joint venture



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at the present stage of development of this market by two such powerful companies would be a significant deterrent to market entry by others.

In the circumstances the Secretary of State has decided that he should not license the proposed joint venture but that it would be in the public interest to license BT and IBM separately since this would create the conditions for the widespread provision of an increased variety of services. The Secretary of State is also willing, in accordance with the statement made by the then Minister for Information Technology (Mr Kenneth Baker) on 20 July 1984, to give favourable consideration to applications for special licences by other companies which wish to provide managed data network services of a similar kind.

Before licensing applicants the Government will wish establish that they have the technical and financial resources to install and operate the systems necessary to provide such services and that they will not damage the national networks. It will be a condition of such licences that within specified periods after the publication of OSI standards each licensee, including BT and IBM, should secure the provision of facilities that enable his customers to communicate with users of apparatus operating according to those OSI standards. However, licensees will be free from the outset to provide services using proprietary standards.

The Department will shortly be consulting interested parties about the modifications to the existing VANS General Licence required by the new legislation. The new licence will ensure that independent companies are authorised to provide VANS using the managed data network services provided by BT, IBM, and others.

CONFIDENTIAL

NBPM AT 11/10
Letter expected from N Tebbit
12/10.

MR TURNBULL

10 October 1984

BT/IBM JOINT VENTURE - VANS

The DTI have concluded their consultations on the BT/IBM joint venture to provide nationally connected value added network services (VANS). Norman Tebbit is expected to announce his decision this week.

VANS permit computer users to be interconnected and to access common databases - for example airline ticket booking systems. They represent the infrastructure on which the IT revolution will be built.

IBM has several years lead in this field and the fear is that by licencing the BT/IBM joint venture it will cut out competition for VANS but more importantly make it much harder for competitors to sell the computers and terminals that will be connected to the VANS.

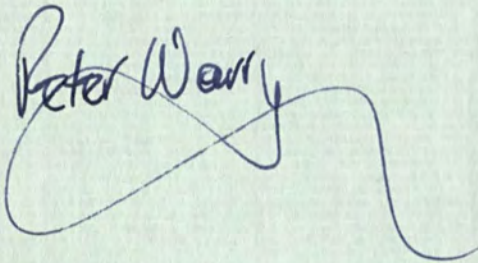
BT/IBM could be given a license under terms that force them to ensure there is no cost penalty to connecting competitors equipment: but this will be difficult to police and even harder to enforce. Alternatively the license could be refused hoping IBM and perhaps BT will develop their own competitive systems and ICL catch up.

OFTEL have informally advised against: we believe the arguments are finely balanced but that if we are serious about IT we should take the bold step now and support the joint venture. Competitors could help in framing a very tight license.

The decision needs to be taken before the release of the draft BT sale prospectus scheduled for 26 October. The joint venture could boost the price by £30 million.

CONFIDENTIAL

The Prime Minister may wish to discuss this with Norman Tebbit before he announces his decision this week.

A handwritten signature in blue ink that reads "Peter Warry". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

PETER WARRY



JU356

Secretary of State for Trade and Industry

B/F Mr Treasury
response.
AT 1910
CENO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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SWITCHBOARD 01-215 7877

10 October 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

D. Nigel.

BT

In the light of press reports that GEC were considering acquiring a substantial shareholding in British Telecom plc, perhaps of the order of 15%, the Director General of the Office of Telecommunications has expressed concern to me about the longer term competition implications of GEC or a similar company acquiring a large holding in BT. He suggested that we might consider reducing to 10% the present 15% limit on individual shareholdings. The Chairman of BT has made a similar suggestion.

2 I am not attracted by the idea. Quite apart from the fact that it would require a change in BT's Articles at a very late stage in the run-up to the flotation, I do not consider that BT ought to be protected to that degree.

3 Moreover, so far as competition considerations are concerned, the Government's undertakings that it will not normally intervene in the commercial decisions of BT or vote its shareholding at general meetings will affect the position under the merger provisions of the Fair Trading Act. Under the Act a merger situation can arise when one company is able materially to influence the policy of another. At what point material influence can be exercised is not defined, but normally the Director General of Fair Trading would start to consider the possibility that a company is in a position to exercise material influence over another company when it has 15-20% of the shares of that company. But in making a judgment on this point the Director General will look at the size and nature of the other shareholdings. Given the Government's undertakings in the case of BT, he has advised that he would be likely to disregard the Government's shareholding in considering whether another shareholder had material influence. The shares of another shareholder would therefore count for about double in considering whether they were able to exercise material influence i.e. a shareholding of less than 15% might be considered to be sufficient to confer material influence, depending on the



circumstances of the case. If it were considered sufficient, it would be open to the Director General to advise, and for me to decide, on whether a reference to the Monopolies and Mergers Commission should be made.

4 I believe that it is important that the market should be on notice of this, and that we intend to limit initial allotments to 10% of the total equity, as soon as possible. I am therefore arranging for an exchange of letters with a backbencher in the terms attached, which I propose to publish in the next few days.

5 I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

DRAFT EXCHANGE OF LETTERS

DRAFT LETTER TO SECRETARY OF STATE/MR FLETCHER/MR PATTIE
FROM A N OTHER MP

You will have seen the reports in the press that companies with commercial relationships with BT may well be interested in acquiring a substantial shareholding, possibly as much as 15%, in BT. Such a shareholding would raise substantial competition issues. I would be grateful to know what the Government would do if these reports were borne out by events.

Draft Reply

Thank you for your letter of October.

As you will know, under the Articles of Association of BT no one shareholder (other than the Government) will be able to own more than 15% of the shares of the company. We also intend that when the flotation takes place no more than 10% of the shares are taken up by an individual applicant.

You say that a shareholding by a company with commercial relationships with BT would raise substantial issues of competition. I cannot of course comment on a hypothetical case. But any substantial acquisition of shares in BT would fall to be considered under the merger provisions of the Fair Trading Act 1973. Under the Act a merger situation can arise where (provided either the assets or the market share tests is met) a company acquires material influence over another company. There is no

specific point at which a shareholding confers material influence. The Director General of Fair Trading, who advises me on mergers, takes account in a particular case of all the circumstances, including the position in relation to other shareholdings in the company. In the case of BT, the Government has informed BT that it does not intend to use its rights as an ordinary shareholder to intervene in the commercial decisions of BT and that it does not expect normally to vote its shareholding on resolutions moved at general meetings, although it retains the power to do so. On this basis, the Director General of Fair Trading has advised that he would be likely to leave the Government's shareholding out of account in considering whether another shareholder was able materially to influence the policy of BT. Accordingly, so long as the Government retains about half the shares in a company, the shares of another shareholder would be likely to be counted for double their value by the Director General.

I should emphasise that whether or not a reference should be made is for the Secretary of State to decide, on the merits of the particular case and in the light of the advice of the Director General.

CONFIDENTIAL

CC NO.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215) 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister (2)
AT 2/10
[Handwritten signature]

8 October 1984

Dear Chief Secretary,

POST OFFICE CLOSURE PROGRAMME AND DHSS INDUSTRIAL DISPUTE

You and colleagues will wish to be aware that the Post Office intend to announce tonight or tomorrow that no further closures of Crown offices will take place until the DHSS dispute is resolved and that those sub-postmasters who have had their applications for voluntary retirement accepted will be asked to stay on for the same period.

Sir Ronald Dearing estimates that the workload at Crown offices is some 25 per cent higher because of the emergency arrangements for paying benefits to recipients whose order books have not been renewed. He is seriously concerned at the length of queues and at the volume of complaint about the deterioration of service. He does not believe that he can be seen to be closing down capacity at a time when the Post Office is clearly not meeting existing demand in a satisfactory way.

Nine Crown offices have been closed as part of the programme to date. The remaining 67 targetted have not been disclosed although their identity will be announced over the next few days. These closures will be processed but not implemented until the DHSS dispute is resolved. Some 500-600 sub-postmasters have already been told that they may take compensation for closure and have been given fixed dates. The Post Office have no powers to undo these closures but will be seeking to persuade as many as possible to remain open until the dispute is resolved.

I am copying this to the Prime Minister, other Members of the Cabinet, John Gummer and Sir Robert Armstrong.

Yours sincerely
Neil Martin

OC2/OC2AAG

for GEOFFREY PATTIE

1 approved by the Minister + signed in his absence.



Prime Minutes (2)

To note

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

CC/NO

AT 8/10

Secretary of State for Trade and Industry

8 October 1984

The Rt Hon Viscount Whitelaw PC CH MC
Lord President of the Council
Whitehall
LONDON SW1

D. Willie,

BRITISH TELECOM FLOTATION

Next month we shall be offering shares in British Telecom to private investors.

2 As we get closer to the time of the offer, and during the offer period itself, colleagues and I will be asked many questions about the flotation - particularly by the media or by our constituents. Are the shares a good buy? Are BT's prospects bright? Is the Government doing enough to encourage competition in telecommunications? Will the Office of Telecommunications be strong enough? Is the Government going to introduce further policy initiatives in telecommunications?

3 Unguarded or inaccurate answers to any of these questions could have very serious consequences for the flotation. Indeed they could even make it necessary for us to delay the flotation itself. It would clearly be preferable, therefore, if my colleagues sought to sidestep all questions about the flotation. I hope they will do this. I appreciate that this will not always be entirely practicable, so I hope it will be helpful if I set out for my colleagues some guidelines for dealing with questions about the flotation.

4 There are three basic rules which we must all follow:

- (i) anything said about the share offer, BT itself or BT's trading environment must be factual, accurate, and fair;
- (ii) no opinion should be expressed, and no predictions made, about the prospects for the shares or for BT's business or about BT's competitors or the telecommunications industry generally (beyond, of course, whatever

JH4AKY



forecasts are set out in the Prospectus and even these statements must be set in context);

- (iii) enquirers should be urged to obtain their own copies of the Prospectus, once this has been published in the second half of November, and to make up their own minds after reading it. No statements should be made which could be interpreted as an inducement or recommendation to buy BT shares.

... 5 As an attachment to this letter I enclose a series of "Questions and Answers" illustrating how these criteria should be interpreted in practice. You will see from this material that the rules have been tightly drawn, but this approach is absolutely necessary in the circumstances.

6 I am copying this letter and attachment to other members of the Cabinet and to Sir Robert Armstrong. I should be grateful if they would circulate this letter and its annex to their Departmental colleagues.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

BT FLOTATION: RESPONSES TO QUESTIONS

1. Why is the Government selling BT shares?

The BT sale is part of a continuing Government programme of returning state companies to the private sector. The need to satisfy shareholders and customers should stimulate an improved managerial performance.

2. When will the shares be on sale?

In November. The full Prospectus, and a shortened version of the Prospectus, will be printed in many newspapers at that time. They will also be available from the branches of banks and from post offices.

3. Why is the Government advertising this sale? Does the advertising reflect a lack of confidence that the public will buy shares?

The Government believes that a wider spread of share ownership would be beneficial, both to industry and society. The advertising is designed to inform people who might be interested in buying shares how they can get the information they need to make their choice. It is up to the members of the public to decide whether they want to invest in BT shares or not.

4. Should I buy BT shares? Will they go up in value?

You must decide for yourself. Shares go down in price as well as up.

5. How much is this sale going to cost Government by way of fees, advertising etc?

All the costs of the sale will be presented to Parliament.

6. Is the Government not turning a public sector monopoly into a private sector monopoly? Will the Government take steps to curb BT's power?

These questions were debated fully when the Telecommunications Bill (now the Telecommunications Act 1984) was before Parliament. The legislation is now in place; Licences have been granted to British Telecom and to other operators; the Office of Telecommunications (OFTEL) has been established both to ensure that Licencees observe the conditions of their Licences and to provide advice to the Secretary of State for Trade and Industry.

N. O.

D.

Wesley



File

PRIME MINISTER

BT FLOTATION: CELEBRATORY DINNER

There is only one possible date when this would be convenient between now and Christmas, and that is Monday, 17 December. The dinner would take place at the Post Office Tower but it is the same evening as the Central Office Christmas Party.

Content to attend the Dinner after your visit to Central Office?

ep. Yes - provided
all goes well

5 October 1984

AT
rang Andrew
Lindsay &
confirmed.
test before
8.00 p.m.
please.
Ch.
8/10.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU275
PS/ Secretary of State for Trade and Industry

1 October 1984

CONFIDENTIAL

Andrew Turnbull Esq
No 10
Downing Street SW1

AT (0/✓)

Dear Andrew

BT FLOTATION: CELEBRATORY DINNER

Andrew Lansley here had a word with you last week about the proposal from BT that they should organise a celebratory dinner, in the event that the flotation goes ahead successfully. Sir George Jefferson would very much like to invite the Prime Minister as the Guest of Honour at such a dinner, which should ideally be held soon after the BT flotation, so that it had topicality. Sir George also has it in mind to invite the Ministers in this Department who have played the greatest part in preparing for the flotation, and to invite successive Secretaries of State from Sir Keith Joseph's time; and Ministers of State starting with Mr Adam Butler.

2 Sir George would not issue the invitation until after the success of the flotation has become clear. If there is to be any chance of arranging such a dinner before Christmas, which would be ideal, it will be necessary to reserve a date now which is suitable both to the Prime Minister and to my Secretary of State. I should be grateful if you could discover whether the Prime Minister would, in principle, be willing to attend such a dinner; and if the appropriate diary side of No 10 could investigate possible dates.

3 The dinner would be held at what I anachronistically still call the Post Office Tower, but which I believe is now more properly known as Telecom Tower, the restaurant of which has just been re-opened for this sort of occasion. This physically puts a limit on the numbers, of an obvious sort. I should add that my Secretary of State believes that this would be a most appropriate occasion for the Prime Minister to attend as Guest of Honour, since it would mark the culmination of the Government's largest privatisation measure. He therefore strongly recommends it to the Prime Minister.

Yours ever

Colman

M C McCARTHY
Private Secretary

- 2 OCT 1984

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OCT 11 1984



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OCT 11 1984

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10 DOWNING STREET

From the Private Secretary

21 September, 1984

British Telecom: Share Incentives

The Prime Minister has seen your letter to me of 19 September and has noted the fuller explanation which you provided on the tax treatment of the vouchers.

I am copying this letter to Callum McCarthy (Department of Trade and Industry) and Neil McMillan (Mr. Pattie's Office).

ANDREW TURNBULL

Ms. Helen Goodman,
H.M. Treasury

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Prime Minister⁽²⁾

Treasury have clarified
their explanation to the
tax treatment of BT
vouchers.

AT
20/9

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON

19 September 1984

Dear Andrew,

BRITISH TELECOM: SHARE INCENTIVES

Thank you for your letter of 6 August.

You asked us to spell out more fully the tax treatment of the vouchers. To answer the Prime Minister's question first, grants or gifts from the Government are generally speaking treated in the same way as grants or gifts from anybody else for tax purposes. This is a point which the Courts have established, and I am sorry if our earlier note did not make it clear.

The vouchers represent value received in the hands of the share subscribers. Since this value has not come out of the assets of BT it does not fall within the ambit of the legislation which applies to the distribution of either income or capital by a company. Nor does the voucher fall to be taxed as a receipt of income. It does not for example represent a payment for services rendered, nor is it akin to other types of income such as rent or interest. In the Inland Revenue's view, the voucher is a capital receipt and is to be taken into account in calculating the eventual gain on the shares. This follows from the provisions of Section 42 of the Capital Gains Tax Act which provides that any part of expenditure on an asset met directly or indirectly by the Crown or by any Government shall reduce the acquisition cost of that asset for the purposes of calculating any capital gain on its subsequent disposal.

In your letter you also raised the question of whether the value received in the Vouchers could simply be exempted from Capital Gains Tax. This would require legislation.

On the face of it, there is something to be said for exemption if only because, as you say, liability to CGT is unlikely to arise in practice for the majority of small subscribers - mainly because of the annual exemption limit (currently £5,600). It might help in a small way to simplify matters administratively. And, presentationally at least, it might make the shares that bit more attractive and so contribute to the overall success of the flotation.

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There are, however, a number of counter arguments.

a. Exemption would provide little or no additional incentive for small investors, precisely because they are likely to be out of the CGT net anyway. So in practice it would benefit the larger investor, because they will tend to be the CGT payers, whereas the aim is to try to get in more small investors.

b. Exemption would represent a departure from the normal tax rules and, as such, from the Government's general approach to privatisations that there should, as far as possible, be parity of treatment with comparable transactions in the private sector.

c. We estimate that the cost of exemption would be up to £2 million.

For all these reasons, the Financial Secretary thinks that it would be better not to exempt the value represented by the vouchers.

I am copying this letter to Callum McCarthy and Neil McMillan.

Yours sincerely,

Helen Goodman

H C GOODMAN
Private Secretary

POST + TELECOM : future d... : RQ



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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 3972
SWITCHBOARD 01-215 7877

15 August 1984

Sir Brian Hayes KCB
Joint Permanent Secretary

Sir George Moseley KCB
Department of the Environment
2 Marsham Street
LONDON SW1

*NSP
K*

Dear George,

PRIVATISATION OF BRITISH TELECOM - DISCLOSURE OF PROMOTERS INTERESTS

This letter seeks your assistance, and that of a wide range of copy recipients, in identifying and describing those dealings between the Crown and British Telecom which we as promoters will have to disclose to the company on the occasion of the offer of shares in British Telecom plc to the public late this Autumn. I should be grateful for your initial response by Thursday 13 September; it will need subsequently to be up-dated if the position changes between then and the issue of the prospectus.

2. I have to ask you and copy recipients, in respect of the organisation in respect of which each of you holds office:-

- a. whether that organisation is, or is not, a Crown body;
- b. if it is a Crown body, to take the action set out in paragraphs 5 to 18 below;
- c. whether or not it is a Crown body, to consider whether there are any other bodies of which I may not know which to your knowledge should be regarded as a Crown body, and if so to copy this letter to that body informing this Department that you have done so;



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3. To help answer requests at 2a and 2c I attach:

- i. at Annex 1 a list of bodies each of which I believe is or may be a Crown body, and to the Secretaries or Permanent Secretaries of each of which a copy of this letter is going;
- ii. at Annex 2 a letter from the Management and Personnel Office of the Cabinet Office to the Department of Trade and Industry which seeks to interpret the words 'Crown service';
- iii. at Annex 4 a list of bodies to whom we have not circulated this letter.

4. The main action I ask you to take - request 2b - is to help with the task of identifying all relevant dealings between the Crown and British Telecommunications plc (the Company) and/or the former statutory Corporation (the Corporation) during a relevant period. The terms I use are defined in the paragraphs below. We need to take this action because the Crown is, in law, one of the promoters of the Company and has duties to disclose this information formally to the Company. Sufficient and proper disclosure is needed since otherwise it would be open to the Company, and indirectly its shareholders, to bring proceedings which might result in the rescission of contracts with the Government or even, in certain cases, the recovery of 'secret profits'. I am well aware that this is a huge and time consuming task - but I fear it is absolutely necessary. If there are any questions about the details of this letter, I should be grateful if they could be directed to Brian Heatley, Telecommunications Division, Room 511, 1 Victoria Street, LONDON SW1H 0ET on 01 215 5031, to whom you might also address your replies. The legal background is set out in paragraphs 5 to 15, while a summary of the action we wish you to take is in paragraphs 16-18.

DEFINITIONS AND ADDITIONAL INFORMATION

I The Crown

5. The Crown includes all manifestations of the Crown, except Her Majesty in a personal capacity. In essence the Crown includes all Government Departments. It does not, however, include those public bodies which, by reason of their nature or by statute, are not agents or servants of the Crown; it therefore does not include nationalised industries, the British Technology Group or commercial companies controlled by the Government such as British Leyland plc. For further details see Annex 2.



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II Relevant Period

6. The dealings of transactions which require to be disclosed are all those described in paragraph 7 below which occurred in the period from and including 22 April 1982 and ending on the date of issue of the Prospectus (which until further notice should be assumed to be prior to 15 December 1984).

III Relevant Dealings

7. All dealings between the Crown and the Company or the Corporation during the relevant period need to be disclosed, save as indicated below. In particular this will include the entering into of a contract within the relevant period even though no action may occur under the contract until after the period has expired - and even though the Crown's interest in the subject matter of the transaction was acquired many years before the promotion began. Thus the interest may even have been acquired in respect of the Corporation's predecessors, that is to say the Post Office, or before 1969, the Minister of Posts and Telecommunications.

8. On the other hand transactions which merely represent the application of general fiscal or other similar regimes need not be disclosed; thus it is not necessary to disclose the payment of taxes or national insurance contributions nor is it necessary to disclose transactions and dealings which, although they occur within the relevant period, are in implementation of a contract entered into before that period began. Particularly important in the context of British Telecommunications is the provision of standard telecommunications services, such as the provision of telephone services. Whilst all such dealings in the relevant period have to be disclosed, the extent of the disclosure is quite limited and is discussed in paragraph 14 below.

9. For assistance in identifying the kind of dealings there may be between the Crown and British Telecommunications ... there is attached at Annex 3 a brief note prepared in April of this year by British Telecommunications specifying the five main categories of dealings which, to their knowledge, are likely to take place between the Crown and British Telecommunications.

10. It is emphasised that the duty of disclosure arises in respect of any transaction and whether the Crown is, broadly speaking the supplier or the customer. It is necessary to make disclosure in respect of both sides of any dealing (for example, both payment for services supplied and details of



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4

the services supplied) and whether services are supplied to the Crown for its own use or for resale.

Extent of Disclosure

11. The general principle is that the Company must be informed of any interest in relevant transactions during the period of the promotion and that the Crown must not make any secret profit out of the promotion.

12. The application of these general principles to determine the extent of the disclosures will depend on the time at which the interest to be disclosed was acquired and on the facts of each case:

- i. If the interest was acquired on or after 22 April 1982 both the fact that the Crown is interested in the transaction and any "profit" made as a result of the transaction requires to be identified. To give an entirely fictitious example, if the Property Services Agency purchased some land in June 1982 for £10,000,000 and in January 1983 sold it to British Telecommunications for £15,000,000, the difference in price will have to be disclosed. Equally (and not quite so fictitiously) if my own Department had received equipment worth £1,000,000 on the transfer of the Radio Interference Service from BT to the Department but had paid BT only £500,000, then we would have to disclose the fact that we had made a "profit" of £500,000;
- ii. If, on the other hand, the interest relating to a transaction during the promotion period was acquired by the Crown prior to 22 April 1982 the fact of that interest will need to be disclosed although the amount of profit or benefit accruing to the Crown will not need to be disclosed in every case. That profit or benefit need only be disclosed if it might affect the mind of a buyer of shares in the Company or the view of the Board of the Company on the question of whether to rescind or renegotiate terms. For example, using one of the examples mentioned above, if the Property Services Agency had purchased a piece of land fifty years ago which it sold to British Telecommunications during the relevant period, it might be considered that the difference between the purchase price and the sale price was irrelevant and therefore need not be researched or disclosed. If, on the other hand, the Crown had had a valuation carried out at the beginning of 1982 which showed that a surplus was to be made on the sale, that information would have to be shown.



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It should be added that "profit" means any benefit and not just a cash surplus so that where the Crown has received some other sort of benefit from the transaction that too must be disclosed.

13. It should be noted that sufficient details should be disclosed in order to enable the buyer of shares in the Company or the Directors of the Company to evaluate the transaction.

14. In the case of telecommunications services the following types of contracts require disclosure:

- i. contracts for standard services which are obtained by the Crown body on special terms; and
- ii. services provided to the Crown which would not be provided to others.

15. Thus, standard services, that is to say services provided by British Telecommunications to the Crown on terms similar to those provided to all (other than preferential terms given to the Government simply by virtue of being a large customer) need not be disclosed. In the case of standard services, it will be sufficient to give an indication that such arrangements exist and an overall estimate of the amount spent in the last financial year. While a proper and responsible estimate is required, it is not necessary to vouch for 100 per cent accuracy.

Action necessary

16. It is necessary to set in hand, as soon as possible, arrangements for identifying all relevant transactions for which each Department or Crown body to whom this letter is addressed is responsible and for providing details in respect of them along the lines indicated in paragraph 18 below.

17. In addition it will be necessary for each Department to establish arrangements for identifying, and supplying details of all new transactions entered into after existing transactions have been identified. This will be a continuing requirement until the end of the promotion period.



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18. In order to simplify your task and to provide some uniformity in replies it would be helpful if replies could follow the following pro-forma:

- (1) A statement along the following lines:
"We confirm that, having made due enquiry, this department [institution, or whatever] has had no relationships with British Telecom other than standard supply of telecommunication services [other services as specified] on normal standard terms and conditions [except as disclosed below]"
- (2) For each exception to (1) above the following information:
 - A Name of Crown body
 - B Name of any other Crown Body involved in or associated with this contract or transaction
 - C Relevant date(s) of contracts or transactions - in particular when did the Crown obtain its interest
 - D. Description of nature of dealing or contract
 - E Sale or purchase
 - F Any profit arising from the interest
 - G Any further details needed to evaluate the transaction
 - H Relevant part or Division of Crown body concerned
 - I Name, address and phone number of a contact who could supply further details if necessary.
- (3) In respect of standard telecommunications services a completed version of the following statement:
"We understand that, for the purpose of writing the Prospectus, it is desired to provide a reasonably accurate estimate of the revenue received by British Telecom from Government over the year ended 31 March 1984. We have done our best to estimate our expenditure on



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telecommunications services during that year and, after taking all due care to check on our telecommunications expenses, the figure we have come up with for this department [institution, or whatever] is £ for that year".

Yours ever,

Brian

BRIAN HAYES

I CROWN BODIES

Admiralty Surface Weapons Establishment	Disaster Unit
Admiralty Underwater Weapons Establishment	Driver and Vehicle Licensing Centre
Advisory, Conciliation and Arbitration Service	Ecclesiastical Patronage
Aeroplane and Armament Experimental Establishment	Economic Development Department, Northern Ireland
Agriculture and Fisheries for Scotland, Department of	Education & Science, Department of
Agriculture, Fisheries and Food, Ministry of	Electricity Meter Examining Service
Agriculture for Northern Ireland, Department of	Employment, Department of
Atomic Weapons Research Establishment	Energy, Department of
Attorney General	Environment, Department of the Environment for Northern Ireland, Department of the
	Exchequer and Audit Department, Northern Ireland
British Calibration Service	Export Credits Guarantee Department
Building Research Station	Finance and Personnel, Department of, Northern Ireland
Business Statistics Office	Fire Research Station
Cabinet Office	Foreign and Commonwealth Office
Capital Taxes Office	Forensic Science Service
Capital Taxes Office (Northern Ireland)	Forestry Commission
Capital Taxes Office (Scotland)	
Central Computer and Telecommunications Agency	General Register Office (Scotland)
Central Office of Information	Government Actuary's Department
Central Statistical Office	Government Communications Headquarters
Central Veterinary Laboratory	Government Hospitality Fund
Certification Office for Trade Unions and Employers' Associations	Government whips (House of Commons)
Charity Commission	Government whips (House of Lords)
Chemical Defence Establishment, Porton Down	Greenwich Hospital
Chief Valuer (England and Wales)	Health and Safety Commission
Chief Valuer (Scotland)	Health and Safety Executive
Civil Service Catering Organisation	Health and Social Security, Department of
Civil Service College	Health and Social Services, Northern Ireland, Department of
Civil Service Commission	High Court of Judiciary
Civil Service Commission, Northern Ireland	Home Office
Civil Service Selection Board	Information Technology Department
Companies Registration Office for Scotland	Industrial Assurance Commissioner
Court of Protection	Industry Department for Scotland
Crown Estate Commissioners	Inland Revenue, Board of
Crown Office	Insolvency Service
Cruelty to Animals Inspectorate	Inspectorates:
Customs and Excise, Her Majesty's Defence, Ministry of	Agricultural
Defence Press and Broadcasting Committee	Agricultural, Northern Ireland
Defence Sales Organisation	Alkali and Clean Air
Defence Studies Royal College of	Ancient Monuments and Historic Buildings
Director of Public Prosecutions, Department of	Constabulary
Director of Public Prosecutions, Northern Ireland	Constabulary, Scotland
	Cruelty to Animals
	Explosives

Factory
Fire Service
Fire Services, Scotland
Industrial Pollution, Scotland
Mines and Quarries
Nuclear Installations
Planning
Prisons, England and Wales
Prisons, Scotland
Railway
Schools, England
Schools, Northern Ireland
Schools, Scotland
Schools, Wales
Sea Fisheries
Sea Fisheries Chief Inspector, Scotland
Veterinary, Northern Ireland
Intervention Board for Agricultural Produce

Joint Service Defence College
Judge Advocate of the Fleet
Judge Advocate General of the Forces
Judicial Committee of the Privy Council

Laboratory of the Government Chemist
Land Registry, Her Majesty's
Land Resources Development Centre
Lands Tribunal
Lands Tribunal for Scotland
Lands Tribunal, Northern Ireland
Law Commission
Law Officers' Department/Attorney
General's Chambers
London Weather Centre
Lord Advocate's Department
Lord Chancellor's Department
Lord Chancellor's Department, Northern
Ireland
Northern Ireland Court Service
Lord Privy Seal's Office

Manpower Services Commission
Meteorological Office
Metropolitan Police Office
Military Vehicles and Engineering
Establishment

National Air Traffic Services
National Army Museum
National Debt Office
National Engineering Laboratory
National Health Service Central Register
National Investment and Loans Office
National Physical Laboratory
National Savings, Department for
Northern Ireland Civil Service
Northern Ireland Office
Northern Ireland Parliamentary
Commissioner For Administration, Office
of the

Office of Arts and Libraries
Office of Fair Trading
Offshore Supplies Office
Ordnance Board
Ordnance Survey
Osborne House
Overseas Development Administration
Overseas Trade Board, British

Parliamentary Commissioner for
Administration and Health Service
Commissioners, Office of the
Parliamentary Counsel
Passport Office
Patent Office
Paymaster General's Office
Planning Inspectorate
Population Censuses and Surveys, Office of
Prime Minister's Office
Prison Department
Privy Council Office
Procurement Executive
Propellants, Explosives and Rocket Motor
Establishment
Property Services Agency

Public Prosecutions, Director of
Public Record Office
Public Trustee Office
Public Works Loan Board

Queen's Household, The

Registers of Scotland, Department of the
Registry of Friendly Societies (Central
Office) and Office of the Industrial
Assurance Commissioner
Royal Aircraft Establishment, Farnborough
Royal Air Force Museum and Battle of
Britain Museum
Royal Armament Research and Development
Establishment
Royal Botanic Garden, Edinburgh
Royal Botanic Gardens, Kew (until 9.8.83)
Royal College of Defence Studies
Royal Hospital Chelsea
Royal Military College of Science
Royal Mint
Royal Ordnance Factories Organisation
Royal Signals and Radar Establishment

Scottish Courts Administration
Scottish Development Department
Scottish Education Department
Scottish Home and Health Department
Scottish Law Commission
Scottish Office
Scottish Record Office
Services Sound and Vision Corporation
Social Security Commissioners and the
Medical Appeal Tribunal, Northern
Ireland, Office of the

Social Security Commissioners, Office of the
Social Survey
Solicitor General
Solicitor General for Scotland
Special Commissioners of Income Tax
Stationery Office, Her Majesty's
Superannuation Funds Office
Supreme Court of Judicature

Torry Research Station
Trade and Industry, Department of
Transport and Road Research Laboratory
Transport, Department of
Treasury, Her Majesty's
Treasury Solicitor's Department

University Grants Committee
United Kingdom Seeds Executive

Vehicle Engineering Development Unit
Voluntary Services Unit

Warren Spring Laboratory
Welsh Office
Wiston House Conference Centre (incl
Wilton Park)

Lord President of the Council's Office
Corp of Specialists and Technical
Co-operation Officers
Council of Territorial, Auxiliary and
Volunteer Reserve Association

Captain of the Honourable corp of
gentlemen-at-Arms
Captain of the Queen's bodyguard of the
Yeoman of the Guard
Treasurer of Her Majesty's Household
Lord in Waiting
Comptroller of Her Majesty's Household
Vice-Chamberlain of Her Majesty's Household

Victoria and Albert Musuem (until 30.9.83)
Science Museum (until 30.9.83)
English Industrial Estates Corporation

Agricultural Engineering, National Institute

Freshwater Biological Association

Ancient Monuments Board for England
Ancient Monuments Board for Scotland
Ancient Monuments Board for Wales
Animal Breeding Research Organisation
Animal Physiology Institute
Animal Virus Research Institute
ARC Computing Centre
Arts Council of Great Britain
Attendance Allowance Board

Gaming Board for Great Britain

Hannah Research Institute

Highlands and Islands Development Board
Hill Farming Research Organisation

Boundary Commission for England
Boundary Commission for Northern Ireland
Boundary Commission for Scotland
Boundary Commission for Wales
British Antarctic Survey

Hydrology, Institute of

Immigration Appeals, the Appellate
Authorities
Industrial Development Board for Northern
Ireland
Industrial Injuries Advisory Council
Institute of Animal Physiology
Institute for Research on Animal Diseases

British Pharmacopoeia Commission

John Innes Institute

Central Advisory Committee on War Pensions
Central Arbitration Committee
Central Offices of Industrial Tribunals
Chief Insurance and the Chief Supplement
Officer
Chief Supplementary Benefit Officer
Church Commissioners

Letcombe Laboratory
Local Authority Accounts in Scotland,
Commission for
Local Government Boundary Commission
for England
Local Government Boundary Commission
for Scotland
Local Government Boundary Commission
for Wales

Civil Service Arbitration Tribunal
College of Arms
Commission for Local Authority Accounts
in Scotland
Commonwealth Air Transport Council
Commonwealth War Graves Commission
Comparative Plant Ecology, Unit of
Council for Small Industries in Rural
Areas (Cosira)
Countryside Commission
Countryside Commission Office for Wales
Countryside Commission for Scotland
Court of Session
Court of the Lord Lyon
Criminal Injuries Compensation Board
Crofters Commission

Lord Great Chamberlain's Office

Macauley Institute for Soil Research

Marine Biological Association of the United
Kingdom

Dairying, National Institute for Research
in
Daresbury Laboratory

Medicines Commission
Medicines, Committee on the Review of
Medicines, Committee on Safety of
Mental Welfare Commission for Scotland
Monopolies and Mergers Commission
Moredun Research Institute
Museums and Galleries Commission

Duchy of Lancaster

Edinburgh Castle
Employment Medical Advisory Service

National Galleries of Scotland
National Institute for Research in Dairying
National Library of Scotland
National Library of Wales

Exchequer and Audit Dept

National Museum of Photography, Film and
Television

National Museum of Wales
National Radiological Protection Board
National Railway Museum
National Sound Archive

Nature Conservancy Council
Northern Ireland Commissioner for
Complaints, Office of the

Occupational Pensions Board
Oceanographic Sciences, Institute of

Parole Board for England and Wales
Parole Board of Scotland
Pensions Appeal Tribunals
Pensions Appeal Tribunals for Scotland
Pensions Commutation Board
Performing Right Tribunal
Plant Breeding Institute

Procurator Fiscal Service

Queen's Awards Office, The

Rating of Government Property, Department of
Red Deer Commission
Road and Vehicle Safety

Royal Observatory, Greenwich
Royal Observatory, Edinburgh

Royal Scottish Museum
Rutherford and Appleton Laboratories

Safety of Medicines, Committee on

Scottish Crop Research Institute
Scottish Development Agency
Scottish Health Service Planning Council
Scottish Institute of Agricultural
Engineering
Scottish Land Court

Scottish Marine Biological Association
Scottish Special Housing Association

Scottish United Services Museum
Sea Mammal Research Unit

Secretary of Commissions for Scotland
Social Science Research Council
Social Security Advisory Committee
Soil Survey of England and Wales

Statute Law Committee
Statute Law Committee, Northern Ireland
Statutory Publications Office
Supplementary Benefits Officer, Office
of the Chief
Supplement Officer, Office of the Chief

Terrestrial Ecology, Institute of
Tower of London, Her Majesty's
Tribunals, Council on
Tropical Development and Research
Institute

Unit of Statistics

Value Added Tax Tribunals
Virology, Institute of

War Pensions, Central Advisory Committee
Weed Research Organisation
Welsh Arts Council
Welsh Development Agency
Welsh Folk Museum
Welsh Industrial and Maritime Museum

Women's National Commission

Wye College

Zoological Museum, Tring

Annex 2



CABINET OFFICE

MANAGEMENT AND PERSONNEL OFFICE
70 Whitehall
London SW1A 2AS
Telephone 233 8389

Machinery of Government Division

Mr C Bridge
Room 511
Department of Trade and Industry
1 Victoria Street
LONDON SW1H 0ET

21 February, 1984

Dear Charles,

DEFINITION OF "CROWN SERVICE"

- 1 You phoned to ask whether we could provide a list of bodies which perform their functions under the Crown. If I understood you correctly, you need this because the "Crown" is to be a promoter for the flotation of British Telecommunications shares, and a legal requirement is that the prospectus should spell out any interests of the promoter in the business.
- 2 I explained that it is not possible to provide a definitive list of Crown bodies. "The Crown" is a concept rooted in antiquity, whose significance has changed over time, and which rests on a combination of Prerogative and statutory powers, and interpretation by the Courts. Accordingly, it would be easier for us to start at the other end, by considering which of a list of BT's customers are Crown bodies. However, given that you are unable to provide such a list, I promised to send some guidance.
- 3 Generally speaking the Courts regard the Crown as representing the "sum total of Government powers", that is, as synonymous with the Executive. Accordingly the Crown includes:
 - a) the Royal Household;
 - b) Ministerial offices covered by the Ministerial and other Salaries Act 1975;
 - c) the Armed Forces; and
 - d) Government Departments operating under the direction of Ministers. (This concept has been modified by the practice over recent decades of conferring statutory functions on bodies outside the traditional structure of Government Departments.)
- 4 Legal opinion is that all bodies included in Schedule 2 to the Parliamentary Commissioner Act, 1967, and in the list published by the Minister for the Civil Service in pursuance of S.17 of the Crown Proceedings Act 1947, perform their functions under the Crown. Other bodies regarded as Crown bodies on the basis of express statutory provision or legal advice include the following:

The Royal Hospital, Chelsea
Greenwich Hospital Department
Cabinet Office
Lord Advocate's Department
Office of the Parliamentary Counsel
Office of the Paymaster General
Prime Minister's Office
Privy Council Office

Parliamentary Commissioner for Administration
Northern Ireland Civil Service
Northern Ireland Court Service
Corps of Specialists and Technical Cooperation Officers
Council of Territorial, Auxiliary and Volunteer Reserve Association
NHS Hospital Authorities (but not other NHS bodies)
Overseas Civil Service (constituted on 1.10.54 under Special Regulations
by the Secretary of State for the Colonies)
Metropolitan Police (but not other police authorities)

It follows from what I have said earlier that this is not an exhaustive definition;
I hope that, nevertheless, it is of some help,

Yours sincerely
Heleen Leiser

HELEN LEISER

IN CONFIDENCE

Note

"PROMOTERS"

1. This note describes the work done so far by BT towards identifying and quantifying contracts etc between BT and the Crown that will have to be disclosed in connection with the flotation of BT plc. It reviews the position reached, as a basis for determination, primarily by legal advisers, of what further steps should now be taken.
2. BT is ready and willing to assist the Government by making available the information on these matters that is available within its organisation, but could not guarantee (even if disproportionate resources were devoted to the task) to provide the promoters with comprehensive lists or descriptions of all such transactions.
3. The task has been broken down into five main categories:-
 - a. Standard telecommunications services provided by BT to the Crown.
 - b. Non-standard telecommunications services provided by BT to the Crown.
 - c. Non-telecommunications services provided by BT to the Crown.
 - d. Services etc provided by the Crown to BT.
 - e. Land transactions.
4. In considering how best to approach each category, BT has been able to draw on preliminary studies undertaken early last year in response to Hugh Brown's letter to Savill of 17 December 1982.
5. As regards the first category, standard telecommunications services, the previous work showed that Crown customers were not distinguished from others in BT customer records. The task of identifying them, and then quantifying, would be impracticable and, since these services are provided on standard terms, apparently pointless. An indication of the total amount spent by the Crown on this category can be provided from the records of the Crown departments concerned; this is being organised by DTI, and BT is not pursuing this category.
6. There are also advantages in the second category, non-standard services, being tackled from the Government end.

7. For the other three categories, enquiries, in a form based on advice from Linklaters in January of this year, have been made of those in the Corporate HQ of BT who have functional responsibility for certain areas identified in last year's preliminary study. They were also invited to suggest further examples. The results of these enquiries, which were designed in part to give guidance for planning any further trawl that may be desirable, are set out in the Appendix to this note, and may be summarised as follows:-

Provision of non-telecom services by BT

The largest is the Radio Interference Service. There are some consultancy contracts and quality assurance work, and some Crown vehicles are maintained at BT workshops.

Crown products and services provided to BT

BT is a major customer of PSA, and of HMSO. There are one or two special purchase arrangements, and of course BT is a customer for Crown products and services commercially available (eg publications, maps), with an amount of business commensurate with its size, but on the same terms as any other customer. The Government also lends BT money.

Land

The Crown and BT lease land to one another (as might be expected given BT's origins and the size of the BT and the Crown estate), on commercial terms.

8. General considerations In each of these three categories, transactions between BT and the Crown are at "arms length", with charges (since the Post Office left the Crown in 1969) based on commercial consideration. Transactions are of course open to examination by the Exchequer and Audit Department on the one side and the commercial auditors on the other.

9. Since BT instituted its enquiries, BT has been advised
- (a) that the promotion started in April 1982 (say beginning of 1982-3 year).
 - (b) that the Crown is somewhat ragged at the edges. (The enquiries were based on broad guidance.)

Next steps

10. It is assumed that further particulars will be required, going back to 1982-83 and forward, eventually, to September 1984. Also enquiries will have to be made in all the Divisions of BT to ensure that no big fish have escaped the net.

11. Before launching any more definitive trawl, guidance is needed on exactly how much information is required. It would, for example, be helpful to BT, given its other preoccupations, to be told by the promoters that its assistance is not required to

Identify in detail cases which could not be said to be significant in relation to the overall value of the company or of Crown activities. In particular, it would be helpful if, in the light of information already provided, Crown bodies other than the major departments and trading concerns could, for these categories, be deemed immaterial.

BT

April 1984

LISTS OF BT TRANSACTIONS WITH THE CROWN.

A. Non-telecommunications services provided by BT to the Crown.

1. Assistance with the "bill voucher" scheme - and with flotation generally.
2. Maintenance of some 50 Crown vehicles (for Home Office, DHSS, Royal Mint, and PSA vehicles) in spare capacity at various BT MT workshops around the country.
3. The Radio Interference Service (responsibility to be handed over to Government on the transfer date, but BT resources will still be involved "on loan")
4. Purchases made on behalf of the Crown in connection with non-standard telecommunications services (best treated in that context).
5. Quality assurance work for Home Office on hearing aids, and also for MOD. (Information would need to be specially "dug out").
6. Consultancy contracts involving the Development Divisions, eg Martlesham (Information would need to be specially "dug out").

B. Services etc provided by Crown to BT1. Financial

NLF loans, (to be converted into debentures)

Short-term NLF facilities.

Government guarantees of overdrafts, and of overseas borrowing (with exchange cover).

(Government guarantees under section 68 of the 1984 Act, also under Schedule 5 para 39(5) - are these relevant?)

2. PSA The value of PSA services to BT in the 1983-84 to BT year was of the order of:-

Works (professional) services on capital works	<u>£m</u> 62
Maintenance services	22

Estates services	2
Fuel supply	13
Household stores	1
Furniture supply	14
Furniture maintenance	2
Total	<u>£116m</u>

3. HMSO

- Directories: (HMSO no longer produce directories, the work having been "privatised")
- Stationery supply and printing contracts: information on centralised contracts readily available; of the order of £10m p.a.

4. Other

- Purchase of fluorescent and other lamps from MOD, some £0.3m p.a.
- Purchases of supplies from Prisons in England and Scotland (some £0.2m in last year)
- UK embassies abroad provide assistance to BT International and 'Telconsult', presumably on same basis as to other UK businesses.

C. Land transactions

Freehold

Only two transactions since March 1983:

- An old telephone exchange site sold to DOE for £688.
- Bletchley Park being purchased from PSA for £2.3m.

Leases

Records show some 66 cases where BT is the tenant of the Crown, and some 40 where the Crown is BT's tenant. (Details available)

Licences There is some sharing of BT radio station sites, on a licence basis.

Rates On properties without separate rate assessment jointly occupied by BT and Crown, the Treasury Valuer fixes the rateable value for the whole

building, pays all the rates, and then recovers the appropriate proportion from BT and charges a small administration fee.

Wayleaves BT has, for the placing of its plant,

- (a) an overall agreement with the Crown Estate Commissioners (£700 p.a., under review)
- (b) a "master agreement" being negotiated with major landowning Departments, to have some retrospective effect. At present BT pays DOE and MOD £750 p.a. each for all fixtures placed before 1972.
- (c) an overall agreement with Forestry Commission (£15,200 p.a.).

Specific consents are obtained from, for example, the Nature Conservatory Council for placing plant on nature reserves (Crown land) and the Crown Estates Commissioners and DTI for placing cables in the foreshore. The value of these could only be ascertained by examination of local records.

Annex IV

Body/Industry/Tribunal/Corporation

Aberdeen College of Education
Accreditation of Correspondence Colleges, Council for
the
Adjudicators
Adult and Continuing Education, Advisory
Council for
Advertising, Advisory Committee on

Agricultural Chemical Approval Scheme, Scientific
Advisory Committee
Agricultural Consultative Panel, Scottish
Agricultural Development Council, Scottish
Agricultural Dwelling House Advisory Committees
Agricultural Economics Technical Committee
Agricultural Land Tribunals (England)
Agricultural Land Tribunal (Wales)
Agricultural Marketing Act 1958, Committee of
Investigation for England and Wales under the
Agricultural Marketing Act 1958, Committee of
Investigation for Great Britain under

Agricultural Statistics Consultative Committee
Agricultural Statistics Consultative Committee,
Scottish
Agricultural Training Board
Agricultural Valuation Committee on
Agricultural Wages Board for England and Wales
Agricultural Wages Board for Northern Ireland
Agricultural Wages Board, Scottish
Agricultural Wages Committees
Agricultural Wages Committees (England)
Agriculture Advisory Panel for Wales
Air Travel Reserve Fund Agency
Alcohol Education and Research Council
Anaesthetic Equipment, Advisory Panel on

Anglo-American and Scottish-American Community
Relations Committees
Animal Diseases Research Association
Animal Experiments, Advisory Committee on
Apple and Pear Development Council
Applied Research and Development, Advisory Council
for
Area Electricity Consultative Councils
Area Manpower Boards

Area Transport User's Consultative Council
Armagh Observatory
Armed Forces Pay Review Board
Artificial Insemination of Cattle, Committee on the

Arts Council of Northern Ireland
Assessment of Laboratory Standards, Advisory
Committee on
Assessment of Performance Unit (Consultative
Committee)

Attendance Allowance Board for Northern
Ireland
Audiological Equipment, Advisory Committee on
Aycliffe Development Corporation

Body/Industry/Tribunal/Corporation

Badgers and Tuberculosis, Consultative Panel on
Banana Trade Advisory Committee
Bank of England
Basildon Development Corporation
Belfast Education & Library Board

Boards of Visitors and Visiting Committee
Boards to Penal Establishments
Borderline Substances, Advisory Committee on
Borstals and Young Offenders Institutions (Scotland),
Visiting Committees to

Breast Cancer, Working Group on Trials of Early
Detection of

British Approvals Service for Electrical Equipment in
Flammable Atmospheres Advisory Council
British Board of Agreement

British Council
British Film Fund Agency

British Hallmarking Council

British Tourist Authority

Broadcasting Complaints Commission
Building Regulations Advisory Committee
Building Regulations Advisory Committee, Northern
Ireland
Building Research Establishment Advisory Committee
Building Standards Advisory Committee
Bureau of Hygiene and Tropical Diseases (Managing
Committee)
Burnham Further Education Committee
Burnham Primary and Secondary Committee
Business Appointments, Advisory Committee on
Business Education Council
Business Education Council, Scottish
Business Education Liaison Committee and Technical
Education Council, Northern Ireland

Calibration and Measurement, Advisory Council on
Cardiothoracic Equipment, Advisory Group on
Careers Service Advisory Council for England
Careers Materials Advisory Committee
Careers Service Advisory Council for Scotland
Carriage of Dangerous Goods in Ships, Standing
Advisory Committee on

E Industry/Tribunal/Corporation
Catering Industry Training Board (NI)

Central Council for Education and Training in Social Work, Scottish Advisory Committee to the Central Council for Education and Training in Social Work (UK)

Central Fire Brigades Advisory Council
Central Lancashire Development Corporation
Central Midwives Board (England and Wales)
Central Midwives Board for Scotland
Central Services Agency, Northern Ireland
Central Transport Consultative Committee
Centre for Information on Language Teaching and Research
Certification Board for Diver Training
Chancellor's Advisory Panel on Section 482, ICTA 1970
Charities Advisory Committee
Chequers Trust
Chief Constables' Committees for District Police Training Centres
Children's Panels
Children's Panels Advisory Committees
China Clay Council
Cinematograph Films Council
Circuit Advisory Committees

Civil Service College Advisory Council
Civil Service Medical Appeal Board
Civil Service Medical Review Board
Clinical Nursing Studies, Joint Board for
Clothing and Allied Products Industry Training Board
Clothing & Footwear Industry Training Board (NI)
Commissioners of Irish Lights
Commission for the New Towns
Commission on Energy and the Environment
Committee for the Welsh Scheme for the Development of Health and Social Research
Committee of Inquiry into the Functions and Powers of the Islands Councils in Scotland
Committee of Investigation for Scotland
Committee on Opportunities for Volunteering
Common Police Services, Central Committee on
Commons Commissioners

Commonwealth Development Corporation
Commonwealth Institute London and Edinburgh
Commonwealth Scholarship Commission
Community Education Council, Scottish
Community Industry
Community Projects Foundation
Community Work, Advisory Body on
Compensation for Loss of Employment through Civil Unrest, Scheme of
Computer Based Accident and Emergency Records Project Steering Committee
Computer Board for Universities and Research Councils
Conscientious Objectors, Advisory Committee on
Construction Industry Training Board (NI)
Construction Industry Advisory Council, Northern Ireland
Construction Industry Training Board
Consumer Council, Northern Ireland
Consumer Credit Licensing Appeals, Persons hearing
Consumer Protection Advisory Committee

Body/Industry/Tribunal/Corporation
Consumers Committee for England and Wales under the Agricultural Marketing Act 1958
Consumers Committee for Great Britain under the Agricultural Marketing Act 1958
Consumers' Committee for Scotland
Co-operative Development Agency
Cotton Industry War Memorial Trust
Council for Continuing Education
Council for Educational Research, Northern Ireland
Council for Nurses and Midwives, Northern Ireland

Council for the Education and Training of Health Visitors, Scottish Advisory Committee to the
Council for the Education and Training of Health Visitors (UK)

County Court Rule Committee
Covent Garden Market Authority
Crafts Council
Craigie College of Education
Crime Prevention, Standing Committee on

Criminal Law Revision Committee

Crop Research Institute, Scottish
Crown Agents for Overseas Governments and Administrations
Crown Agents Holding and Realisation Board
Crown Court Rule Committee
Cumbernauld Development Corporation
Curriculum, Consultative Committee on the
Cwmbran Development Corporation

Dangerous Pathogens, Advisory Committee on
Dangerous Substances, Advisory Committee on
Dartmoor Steering Group and Working Party
Defence Industries Quality Assurance Panel
Defence Scientific Advisory Council and Committees
Dental Advisory Committee, Standing
Dental and Surgical Materials, Committee on
Dental Committee, Welsh
Dental Establishments, Advisory Committee on

Dental Rates Study Group
Departmental Records, Advisory Panel on

Development Agency, Scottish
Development Board for Rural Wales

Dialysis Equipment, Advisory Panel on
Diplomatic Service Appeals Boards
Disablement Advisory Committees
Disarmament and Non-Proliferation, Advisory Panel on
Disciplinary Inquiry under s.471 of the Merchant Shipping Act 1894
Distinction and Meritorious Service Awards Committee
Distinction Awards, Advisory Committee on
Distributive Industry Training Board (NI)

District Nurse Training, Panel of Assessors for
District Police Training Centres, Local Authority Committees for
Doctors and Dentists Pay Review Board
Domestic Coal Consumers Council

Body/Industry/Tribunal/Corporation
Drainage Council for Northern Ireland
Dumping at Sea Act Representation Panel
Duncan of Jordanstone College of Art
Dundee College of Education
Dundee College of Technology
Dunfermline College of Physical Education

East Kilbride Development Corporation

East of Scotland Agricultural College
Economic Consultants, Secretary of State's Advisory
Panel of
Economic Council, Northern Ireland
Economic Council, Scottish
Edinburgh College of Art
Edinburgh New Town Conservation Committee
Educational Counselling and Credit Transfer
Information Service Steering Committee
Educational Development, Northern Ireland Council for
Educational Technology for the United Kingdom,
Council for
Educational Technology, Scottish Council for
Educational Visits and Exchanges, Central Bureau for
Education of Children from Ethnic Minority Groups,
Committee of Inquiry into the
Effective Prescribing, Informal Working Group on
Eggs Authority
Electrical Equipment for Mining Advisory Council,
Certification of
Electricity Consultative Councils
Electricity Consumer's Council
Electricity Consumers Council, Northern Ireland

(Electricity) Fisheries Committee, Secretary of State's
Electricity Service, Northern Ireland
Electronics and Avionics Requirements Board
Employment Appeal Tribunals
Employment of Disabled People, Committees for the
Employment of Disabled People, National Advisory
Council on
Energy Conservation, Advisory Council on
Enforcement Powers of the Revenue Departments,
Committee on
Engineering Industry Training Board (NI)
Engineering Industry Training Board
English Industrial Estates Corporation
English Tourist Board
English Water Authorities
Enterprise Ulster

Equal Opportunities Commission for Northern Ireland
Ethnic Minority Health, Working Group on
Examination Board, Scottish
Experimental Centres Advisory Committees in England
and Wales
Export Guarantee Advisory Council
Extra Parliamentary Panel
Extra-Statutory Compensation Tribunal

Fair Employment Agency for Northern Ireland
Farm Animal Welfare Council
Fertilisers and Feeding Stuffs (Methods of Analysis),
Scientific Panel for
Fertilisers and Feeding Stuffs, Scottish Standing
Committee for the Calculation of Residual Values of
Fire Brigades Advisory Council, Scottish Central
Fire Service Research and Training Trust

Body/Industry/Tribunal/Corporation
Fire Services Central Examinations Board
Fire Services Examination Board (Scotland)
Fire Service Training School, Organisation and Training
Committee of the Scottish
Fisheries Conservancy Board for Northern Ireland
Fisheries Research and Development Board
Fishery Harbour Authority, Northern Ireland
Focus Committee on Information Technology Standards
Food Additives and Contaminants Committee
Food and Drink Industry Training Board (NI)
Food from Britain
Food Hygiene Advisory Council
Food Standards Committee
Food Surveillance, Steering Group on

Freshwater Fisheries in Scotland, Consultative
Committee on

General Commissioners of Income Tax
General Commissioners of Income Tax, Advisory
Committees on
General Nursing Council for England and Wales
General Nursing Council for Scotland
General Practice Finance Corporation
General Teaching Council for Scotland
Genetic Manipulation Advisory Group
Glasgow School of Art
Glenrothes Development Corporation
Government Hospitality Fund Advisory Committee for
the Purchase of Wine
Great Britain-China Centre
Great Britain-East Europe Centre
Great Britain-USSR Association
Gynaecological Cytology, Committee on

Health and Safety Agency for Northern Ireland

Health and Social Services Council (and five Central
Advisory Committees), Northern Ireland

Health Education Co-ordinating Committee, Scottish

Health Service Planning Council, Scottish
Health Services Human Growth Hormone Committee
Health Services Information, Steering Group on

Health Technical Services Organisation, Welsh
Hearing Aid Council
Hepatitis, Advisory Group on

Highlands and Islands Development Consultative
Council

Hill Farming Advisory Committee for England, Wales
and Northern Ireland
Hill Farming Advisory Committee for Scotland

Historic Buildings Council
Historic Buildings Council for England
Historic Buildings Council for Scotland
Historic Buildings Council for Wales
Historic Monuments Council
Historic Wreck Sites, Advisory Committee on

5 /Industry/Tribunal/Corporation

Home-Grown Cereals Authority
Homeworking, Advisory Committee on
Horse Race Betting Levy Appeals Tribunal for England and Wales
Horse Race Betting Levy Appeal Tribunal for Scotland
Horse Race Betting Levy Board
Horse Race Totalisator Board
Hospital Endowments Research Trust, Scottish
Hotel and Catering Industry Training Board
Housing Corporation
Housing Council, Northern Ireland
Housing Management Advisory Panel for Wales
Human Fertilisation, Inquiry into

Immigration Appeal Tribunal

Importation of Sexually Explicit films for Health Purposes, Advisory Panel on the
Independent Board of Visitors for Military Corrective Training Centre and RN Detention Quarters
Independent Broadcasting Authority
Independent Schools Tribunal
Industrial Court, Northern Ireland
Industrial Development Advisory Board
Industrial Development Advisory Board, Scottish
Industrial Development Advisory Board, Welsh

Industrial Scholarships Trust
Industrial Training Boards, Northern Ireland
Industrial Training Research Unit Ltd
Industrial Tribunals
Industrial Tribunals, Northern Ireland
Industry Advisory Committees
Inland Waterways Amenity Advisory Council
In-Service Training of Teachers, National Committee for the
Insolvency Rules Advisory Committee
Institute of Agricultural Engineering, Scottish
Institute of Development Studies
Insurance Advisors
Interim Action Committee on the Film Industry
Intermediate Technology Industrial Services
International Military Services Ltd
Irish Pensions Appeals Tribunal
Irradiated and Novel Foods, Advisory Committee on
Irvine Development Corporation

Joint Optoelectronics Research Scheme Assessment Committee
Jordanhill College of Education
Judicial Studies Board
Justices' Clerks' Assistants, Committee on Training for
Justices of the Peace Advisory Committees (Scotland)
Justices of the Peace, Advisory Committees on
Justices of the Peace (NI), Advisory Committees on
Justices of the Peace (Scotland), Central Advisory Committee on
Juvenile Court Lay Panel (NI), Advisory Committee on
Juvenile Court Panel (London), Advisory Committee on

Kew Scientific Advisory Panel

Laboratory of the Government Chemist Requirements Committee
Labour Relations Agency

Body/Industry/Tribunal/Corporation

Land Authority for Wales
Land Law Working Group
Land Registration Rules Advisory Committee
Land Settlement Association Ltd
Lands Tribunal
Lands Tribunal for Northern Ireland
Laser Safety Working Party

Law Reform Committee
Lay Observer
Lay Observer (NI)
Lay Observer for Scotland
Legal Aid Advisory Committee
Legal Aid Advisory Committee (NI)
Legal Services Conference
Leisure and Recreation, Working Party on Management Training for
Leith Nautical College
Letchworth Garden City Corporation
Levy Exemption Referees
Library and Information Services Council
Library and Information Services Council (Wales)
Licensed Dealers Tribunal constituted under s.56 of the Prevention of Fraud (Investments) Act 1956
Licensing Planning Committee
Lisnevin School
Livestock Marketing Commission for Northern Ireland

Local Authority Higher Education, Wales Advisory Body for
Local Enterprise Development Unit

Local Government Officers' Superannuation Committee, Northern Ireland
Local Review Committee for HM Prisons, Scotland
Local Social Security Tribunals and Supplementary Benefit Appeal Tribunals
Local Valuation Panels (for England)
London Building Acts Tribunal of Appeal
London Docklands Development Corporation

London Housing Staff Commission

Major Hazards, Advisory Committee on
Man-Made Fibres Producing Industry Training Board (NI)
Manpower Council

Manpower Services Committee for Scotland
Manpower Services Committee for Wales
Marshall Aid Commemoration Commission
Materials and Chemical and Vehicles Requirements Board
Maternity Services Advisory Committee
Matrimonial Causes, Committee on
Matrimonial Causes Rule Committee
Meat and Livestock Commission
Mechanical and Electrical Engineering Requirements Board
Medical Advisory Committee
Medical Advisory Committee, Standing
Medical Appeal Tribunal
Medical Appeal Tribunals
Medical Aspects of Chemicals in Food, Consumer Products and the Environment, Co-ordinating Committee on
Medical Aspects of Food Policy, Committee on

Body/industry/Tribunal/Corporation
Medical Aspects of Water Quality. Joint Committee on
the
Medical Boards
Medical Boards (NI)
Medical Committee, Welsh
Medical Establishments. Advisory Committee on
Medical Practices Committee
Medical Practices Committee, Scottish

Mental Health Review Tribunal for Northern Ireland
Mental Health Review Tribunal for Wales
Mental Health Review Tribunals
Mental Illness Services in Dyfed. Review Group on
Mentally Handicapped. Development Team for the

Merseyside Development Corporation
Meteorological Committee
Metrology and Standards Requirements Board
Microelectronics Education Programme Advisory
Committee for the
Micros for GPs Project Co-ordination Committee

Milk and Dairies Tribunal (NI)
Milk and Dairies Tribunals
Milk Appeals Tribunal
Milton Keynes Development Corporation
Mining Qualifications Board
Misuse of Drugs Advisory Body
Misuse of Drugs. Advisory Council on the
Misuse of Drugs Professional Panel
Misuse of Drugs Tribunal
Mobile Radio Committee

Moray House College of Education
Museum of London

National Academic Awards. Council for
National Advisory Body for Local Authority Higher
Education

National Biological Standards Board (UK)

National Camps Association Limited - Council of
Management, Scottish

National Consumer Council
National Dock Labour Board
National Economic Development Council and Office

National Film and Television School
National Film Finance Corporation
National Food Survey Committee

National Gas Consumers' Council
National Health Service National Staff Committees
National Health Service Tribunal

National Heritage Memorial Fund
National Insurance Local Tribunals

National Metrological Co-ordinating Unit

Body/Industry/Tribunal/Corporation
National Pituitary Collection. Advisory Committee for
the

National Training Council For the NHS
National War Memorial. Board of Trustees, Scottish
National Water Council
National Youth Bureau
Natural Environment Research Council
Nature Conservancy Council
Nature Reserves Committee
Newbattle Abbey College - Board of Governors
New Town Licensed Premises Committees
New Town Staff Commission
Northampton Development Corporation
North Eastern Education & Library Board (NI)

Northern Lighthouse Board
North of Scotland Agricultural College

Nuclear Powered Warships Safety Committee
Nuclear Weapons Safety Committee
Nurse Training Committee, Welsh
Nursing and Midwifery Advisory Committee, Standing
Nursing and Midwifery Committee, Welsh
Nursing, Midwifery and Health Visiting, English
National Board for
Nursing Midwifery and Health Visiting in Northern
Ireland, National Board for
Nursing Midwifery and Health Visiting, Scottish
National Board for
Nursing, Midwifery and Health Visiting, UK Central
Council for
Nursing Midwifery and Health Visiting, Welsh National
Board for

Offshore Energy Technology Board
Offshore Industry Liaison Committee
Offshore Petroleum Industry Training Board
Open Tech Programme. Steering Group
Optical Committee, Welsh
Orkney Development Corporation
Orkney Islands Shipping Company Limited
Orthopaedic Implants. Advisory Group on
Overseas Economic and Social Research, Advisory
Committee on
Overseas Projects Board
Overseas Service Pensions Scheme and Fund Advisory
Board
Overseas Superannuation Scheme Advisory Board

Pacemaker Advisory Group
Paisley College of Technology

Patents. Standing Advisory Committee on

Pesticides. Advisory Committee on
Peterborough Development Corporation
Peterlee Development Corporation
Pharmaceutical Advisory Committee, Standing

Body/Industry/Tribunal/Corporation

Pharmaceutical Committee, Welsh
Pig Production Development Committee
Pilotage Commission
Place Names Advisory Committee
Planning Appeals Commission
Plant Varieties and Seeds Tribunal
Plastics Processing Industry Training Board
Pneumoconiosis Medical Panels
Poisons Board
Poisons Board (NI)
Police Advisory Board
Police Advisory Board for Scotland
Police Appeals Tribunals
Police Arbitration Tribunal

Police College Board of Governors, Scottish

Police Complaints Board for Northern Ireland
Police Disciplinary (Senior Officers) Tribunal
Police Negotiating Board
Police Promotion Examinations Board
Police (Scotland) Examination Board
Police Staff College Board of Governors
Policyholders' Protection Board
Political Honours Scrutiny Committee
Postgraduate Awards, Advisory Board for
Post Graduate Medical Education Council, Northern
Ireland
Post Graduate Medical Education in England and
Wales, Council for
Post Graduate Medical Education, Scottish Council for
Postgraduate Medical Education, Welsh Committee for
Postgraduate Pharmaceutical Education, Welsh
Committee for
Postgraduate Training Allowance Advisory Committee

Probation Board for Northern Ireland
Probation Manpower Needs, Standing Committee on
Production Statistics Advisory Committee
Property Advisory Group
Property Services Agency Advisory Board
Public Health Laboratory Services Board
Public Records, Advisory Council on
Public Service Training Council
Purchase of Works of Art, Advisory Committee on the

Queen Margaret College, Edinburgh
Queen's College, Glasgow

Race Relations, Advisory Council on
Race Relations Employment Advisory Group

Radiation from Radioactive Medicinal Products,
Committee on
Radioactive Substances Advisory Committee,
Administration of
Radioactive Waste Management Advisory Committee
Radiological Advisory Committee

Rathgael and Whiteabbey Schools
Reading Cattle Breeding Centre Advisory Committee
Records Advisory Council, Scottish

Redditch Development Corporation
Red Sea Lights Company Limited

Body/Industry/Tribunal/Corporation

Refugees from Vietnam, Joint Committee for
Regional Councils for Sport and Recreation
Regional Gas Consumers Councils

Regional Industrial Development Boards
Regional Panels
Registrar of Public Lending Right
Registration of Social Work Establishments Appeal
Tribunal†
Remploy Limited
Rent Assessment Panel (England)
Rent Assessment Panel (NI)
Rent Assessment Panel for Scotland
Rent Assessment Panel (Wales)
Research and Development for Fuel and Power,
Advisory Council on
Research and Development in Agriculture and Food,
Joint Consultative Organisation for
Research Councils, Advisory Board for the
Research in Education, Scottish Council for
Resettlement of Ex-regular Members of HM Forces,
Advisory Committee on
Restricted Patients, Advisory Board on
Retail Prices Index Advisory Committee
Review Board for Government Contracts
Reviewing Committee on the Export of Works of Art
Review of Medicines, Committee on the
River Purification Boards
Road Transport Industry Training Board (NI)
Road Transport Industry Training Board
Robert Gordon's Institute of Technology

Royal Air Force Museum
Royal College of Defence Studies Advisory Board

Royal Mint Advisory Committee
Royal Scottish Academy of Music and Drama, Glasgow
Rural Practice Payments, Central Advisory Committee
on

Safety in Mines Research Advisory Board
Safety of Household Electrical Equipment, Advisory
Committee on the
Safety of Medicines, Committee on the
Safety of Nuclear Installations, Advisory Committee on
the
Schools Council
School for Dental Therapists Ltd, Committee of
Management of the
Schools Examinations Council, Northern Ireland

Sciences Museum Advisory Council
Scientific Advisory Committee, Welsh
Scotland's Travelling People, Advisory Committee on
Scottish College of Textiles, Galashiels
Scottish Hospital Trust

Scottish Special Housing Association, Council of
Management

Sea Fish Industry Authority
Section 463 Tribunal
Security Appeals Board

Body/Industry/Tribunal/Corporation

Security Commission
Seed Potato Development Council, Scottish
Selection of Low Priced Books, Advisory Committee on
Service Candidates, Advisory Committee on
Services Resettlement Committee for Scotland

Sexual Offences, Policy Advisory Committee on
Sheltered Employment Consultative Group
Simplification of International Trade Procedures
Board
Sir John Soane's Museum
Skellmersdale Development Corporation
Smoking and Health, Independent Scientific Committee
on

South Bank Theatre Board
South Eastern Education & Library Board (NI)

Southern Education & Library Board (NI)

Space Consultative Committee
Special Employment Measures Advisory Group

Specialists, National Panel of

Sports Council for Northern Ireland

Staff Commission for Education & Library Boards
Staffs Council for Health and Social Services, Northern
Ireland
Standing Advisory Commission on Human Rights
St Andrew's College of Education
State Hospital Management Committee
Statistical Information, Advisory Committee on

St Joseph's Training School
Stockpiling, Advisory Committee on
St Patrick's Training School
Studentship Selection Committee, Scottish
Sugar Beet Research and Education Committee
Supplementary Benefit Appeals Tribunals
Supply and Education of Teachers, Advisory Committee
on the
Supreme Court Rule Committee
Suspension and Revocation of Authorities for wireless
personnel, Advisory Committee on

Teacher Education, Advisory Committee on
Teachers Negotiating Machinery for Salaries
Technical and Vocational Education Initiative National
Steering Group
Technical Education Council, Scottish
Technician Education Council
Technology Transfer Services Committee
Telford Development Corporation
Tertiary Education in Scotland, Council for
Textiles and Other Manufacturers Requirements
Board
Textiles Industry Training Board (NI)
Theatres Trust
Therapeutic Paramedical Advisory Committee

Body/Industry/Tribunal/Corporation

Top Grade Scientific Posts, Scottish Advisory
Committee on
Toplis and Harding (Middle East) Ltd
Top Salaries Review Board
Tourish Board, Scottish
Tourist Board, Northern Ireland
Toxic Substances, Advisory Committee on
Trade Marks, Standing Advisory Committee on
Traffic Commissioners
Training Advisory Committee
Training Executive, Northern Ireland
Training of Trainers Advisory Group
Transport Licensing Review Body, Northern Ireland
Transport Tribunal
Transport Users' Committee, Northern Ireland
Treasure Trove in Scotland, Advisory Panel on
Treasure Trove Reviewing Committee
Treatment of Trunk Roads, Advisory Committee on the
Landscape
Tribunal Under Schedule 11 of the Health and Personal
Social Services Order 1972
Trinity House
Tripartite Steering Group on Job Satisfaction
Trunk Road Assessment, Standing Advisory Committee
on

UK Polar Medal Assessment Committee
UK Trade Agency for Developing Countries
UK Transplant Management Committee
Ulster American Folk Park
Ulster Countryside Committee
Ulster Defence Regiment, Advisory Council for the
Ulster Folk & Transport Museum
Ulster Museum
Ulster Savings Committee
Ulster Sheltered Employment Limited
UNESCO Committee
UNESCO, UK National Commission for
United Kingdom Atomic Energy Authority

Vaccination and Immunisation, Joint Committee on
Vaccine Damage Tribunals
Valuation Advisory Council, Scottish

Veterinary Products Committee
Victoria and Albert Museum Advisory Council
Vocational Training Allowances, Advisory Committee on

Wages Council
Wages Councils Northern Ireland
Wakehurst Place Consultative Panel
Wales Tourist Board

War Pensions Committees
Warrington and Runcorn Development Corporation
Washington Development Corporation
Water Appeals Commission
Water Council, Northern Ireland
Water Space Amenity Commission

Welsh Fourth Channel Authority
Welsh Water Authority
Western Education & Library Board (NI)
West of Scotland Agricultural College
Wild Bird Advisory Committee

B1 Industry/Tribunal/Corporation
Wilson Park Academic and International Advisory
Councils
Wine Standards Board of the Vintners' Company
Wireless Telegraphy, Advisory Committee on
Wireless Telegraphy Appeals Tribunal
Women's Employment, Advisory Committee on

Body/Industry/Tribunal/Corporation
Working Party on Magistrates' Courts

Youth Committee for Northern Ireland
Youth Training Board
YTB Advisory Group on Contents and Standards

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

6 August, 1984

BRITISH TELECOM: SHARE INCENTIVES

The Prime Minister saw the note attached to your letter to me of 1 August and queried the basis of taxation for the voucher. She understands that the logic for bringing the value of the voucher within the scope of CGT is that it is not a distribution by BT but a grant or gift from the Government; and that as such it is closer in nature to a capital rather than an income transaction. She wonders why, if it is a grant or gift from HMG, it is subject to any form of taxation.

6/8/84
I assume that as there will be a maximum value per person of £72 a year, mostly in the hands of small investors, virtually none of the value will in practice give rise to CGT charge. In these circumstances would there be merit in exempting it from the start? I would be grateful if you could spell out a bit more the thinking behind the tax treatment proposed.

I am sending a copy of this letter to Callum McCarthy (Department of Trade and Industry) and to Neil McMillan.

(A. Turnbull)

Miss F.P. Bogan,
HM Treasury

Fed 1580

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10 DOWNING STREET

Prime Minister (2)

In coming to the view that
the voucher is not subject
to income tax, but only
CGT, Inland Revenue
took the following steps

(i) is it a distribution
by BT: is it a gift
from Government

(ii) As a gift does it have
the characteristics of
income or Capital;
answer was Capital,
therefore treat under S. 42
of CGT Act 1979.

AT

3/8

I think it is a
ruthless decision, if it is
a gift - you surely do not
go on to ask if cap/w. character
no

PRIME MINISTER

BT BONDS ①

BT has borrowed \$100 million from the Saudi Monetary Authority. These bonds have been guaranteed by HMG. One of the consequences of turning BT into a PLC is that the guarantee has to be re-issued.

We again have the problem of shortage of Lords Commissioners. Could you therefore act in this capacity and sign these bonds above the Chancellor's signature?

Signed
mb

AT

3 August 1984

Prime Minister ②

CONFIDENTIAL

AT 3/8

ms

MR TURNBULL3 August 1984THE MERCURY LICENCE

The new Mercury licence issued under the 1984 Telecommunications Act was published on Monday. There will now be a statutory period of public consultation until 17 September.

The licence requires Mercury to service 15 key cities in England within 2 years. This broadly coincides with the figure of 8 fibre optic loop which the company is constructing. Beyond that the licence proposes that Mercury extends its activities in a way which is practicable and consistent with sound commercial development of its network.

We are pleased that the licence does not require Mercury to build a national telephone network within a specified period. It is not for Government to attempt to second-guess the commercial success of Mercury. If DTI had insisted on this condition, it is almost certain that the Mercury shareholders would have withdrawn.

We do hope, of course, that Mercury will develop into a national network but that progress towards this end must depend upon commercial judgement. We are confident that Mercury do intend to enter the big league and appreciate the scale of investment which will be required.

The other major issue which affects Mercury's ability to compete with BT is Interconnect. A satisfactory principle is contained in the BT licence and BT and Mercury have signed a Heads of Agreement.

Mercury's licence also differs from BT's in several other important aspects:

- because of its market position, the RPI-3 price regulation formula does not apply to Mercury;
- Mercury can compete in Hull where BT is excluded;
- Mercury must notify the Secretary of State of changes in control of its share capital.

Although negotiations have been long and difficult, this is a satisfactory outcome. Mercury themselves are well content. They now have every opportunity to develop into a competitive alternative to BT.

D.P.

DAVID PASCALL

DAWAAW

CONFIDENTIAL

subject



10 DOWNING STREET

From the Private Secretary

1 August, 1984

Dear Calver,

BT Flotation

I attach a record of the presentation on Monday on the BT flotation. I am copying it to the offices of the Chancellor, your Minister of State (Mr. Baker) and the Financial Secretary. I would be grateful if you could arrange for distribution to the outside participants as appropriate.

Your sincerely
Andrew Turnbull

ANDREW TURNBULL

M. C. McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

84

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RECORD OF MEETING HELD IN THE PRIME MINISTER'S ROOM AT THE
HOUSE OF COMMONS ON MONDAY 30 JULY AT 1600 HOURS ON MONDAY
30 JULY AT 1600 HOURS TO DISCUSS BT FLOTATION

Present were:

Prime Minister	Chancellor of	Mr Tebbit	Sir George
Mr Redwood	the Exchequer	Mr Baker	Jefferson
	Financial Secretary	Mr Sterling	Mr Scholey
	Mr Monck	Mr McDonald	
	Mr Wilson	Mr Jacomb	
		Lord Rockley	
		Mr Connor	

The Secretary of State for Trade and Industry opened the meeting by setting out the Government's objectives for the BT flotation. This followed the lines of the agenda note circulated under Mr Lansley's letter of 27 July.

Mr Baker said the size of the issue was estimated at between £3-4 billion. Assuming a central estimate of £3½ billion, it was hoped to be able to raise around £½ billion from overseas, £2 billion from investment institutions, £1 billion from private investors. Mr Jacomb said this represented not only the largest issue ever attempted on the London market but the largest issue anywhere in the world. He believed it was possible provided a full contribution was secured from all three sectors.

The Prime Minister asked what were the major threats to the success of the issue. Mr Jacomb said it was instability in the equity markets which would be most difficult to handle. The timing of the issue had been set for 16 November after the US Presidential election.

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Mr Baker then discussed the results of opinion surveys on BT. These showed that BT was well regarded and that there was a high public awareness of the forthcoming privatisation. 5% of the sample, representing possibly one million private investors, were found to be very interested, and 13% fairly interested. The survey showed that potential investors would look to their bank manager or BT itself for advice rather than stockbrokers. This was reinforced by the finding that investors would want to purchase BT shares via the Post Office or building societies rather than from stockbrokers. The responses also indicated that people would finance the purchase by drawing from bank and building society deposits, indicating that the rate of return on the shares would have to be comparable with deposits with those institutions. There were a large number, even amongst better off investors, who would wish to hold £250 or less.

Mr Baker then set out the means by which private investors could be encouraged to take up the issue. The aim was to secure somewhere between one and two million shareholders. The employees of BT would provide a significant market. It was hoped that around 200,000 might subscribe. They were being offered £70 worth of shares free and a further £300 on a matching basis with two free shares for every one purchased. Beyond that, they could apply for shares in the normal way.

Secondly, it was hoped to attract large numbers of telephone subscribers by what was, in effect, a rental "voucher" scheme. For each £250 subscribed, a credit of £18 would be given. This was broadly equivalent to the current value of the quarterly rental. Thus, a subscription of £1,000 would more or less cover the rental for the year and the maximum of £3,000 the rental for three years. This would be received on top of the dividend. The Prime Minister asked how it was being arranged that the "voucher" would be tax free. The Financial Secretary promised to

E. R.

CONFIDENTIAL

-3-

provide a note on this. As an alternative to the "vouchers", shareholders would opt for a bonus of one free share for every ten shares held for three years after the flotation.

Mr. Jacomb reported on the efforts being made to market the issue with the investment institutions. The objective was progressively to build a moral commitment towards the issue. To do this, Kleinworts and the brokers were actively cultivating the institutions; a "pathfinder" prospectus was to be published in advance of the issue and there would be road shows for prospective investors by BT management. With an issue of this size, formal underwriting would be inappropriate; in effect, a commitment to subscribe would be sought from all major institutions so that the Government could be sure that the issue would be fully taken up. The issue was also too large for a tender. It would be sold on a fixed price basis as all participants needed to be clear about the way in which other parties would be subscribing. The Chancellor agreed that a fixed price offer was appropriate but warned that it was essential for the price to be well judged - a major under or over pricing could do serious damage to the rest of the Government's privatisation programme. (It was argued that the sheer magnitude of the issue would limit the extent to which there could be a very large over subscription and, hence, premium of the issue.)

The meeting then discussed the nature of the undertaking which the Government would give about future sales of its stake. This would be framed either in terms of no further sales during the rest of the Parliament or no further sales for, say, three years. (The period would have to be quite long as full payment would not be achieved for 18 months.) The undertaking would be of interest to BT as well as to investors, as they might themselves want to tap the market. No decisions had yet been taken on this.

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Mr. Jacomb said there was a limit to the contribution which could be secured from overseas. In the US market BT would be valued on a less favourable basis than in the UK. It would be preferable to keep the overseas contribution relatively small, in order to let the price reflect the reception from UK investors. The overseas issue would be underwritten from Britain.

In discussion, it was noted that a yield of 7 per cent would be favourable in relation to the $4\frac{1}{2}$ - $5\frac{1}{2}$ per cent for the equity market as a whole. In addition, BT had good prospects for growth. For private investors there would also be the return from the "voucher".

Mr. Tebbit said the cost of the whole operation could be £220 - 310 million. There were no economies of scale - indeed, it was more expensive to promote a larger issue as it was necessary to bring in the marginal investor. Costs of this kind represented 7-9 per cent of the likely proceeds. This was at or just above the top end of the range of the costs of other privatisation issues.

Mr. Baker then took the meeting through the timetable, as set out in section 6 of the agenda note.

Summing up, the Prime Minister said she was extremely grateful for this presentation. She emphasised that the BT issue was central to the Government's privatisation programme and it was, therefore, essential to do everything possible to make the issue a success. It also represented an opportunity for a major extension of share ownership in Britain.

The meeting ended at 1'730.

1 August, 1984

BT



Prime Minister

This letter has just arrived and we have been told that Mr. Tebbit wants to mention it in Cabinet - under industrial affairs, I suggest.

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 215 7877

FERS

2.8.

August 1984

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

D Willie,

BRITISH TELECOM : PUBLICITY

In view of your responsibilities for the co-ordination of Government publicity, I wish to bring you up to date with the efforts we will be making in the weeks ahead to ensure the success of the flotation of British Telecom this autumn.

2 Our preparatory work on the flotation is reaching a crucial stage:

- (i) BT becomes a plc this weekend;
- (ii) the Director of the new Office of Telecommunications (OFTEL) takes up his regulatory duties this weekend;
- (iii) Kenneth Baker is today announcing, in a written answer, our plans for attracting individuals to invest in BT - the value of the vouchers to be offered to subscribers for use against telephone bills and the offer, as the alternative, of extra shares for individuals who retain their shares for three years;
- (iv) a leaflet on BT, and on the flotation, is now being sent out with telephone bills inviting those interested to write in or telephone for more information.

3 In addition, on 20 August we will be starting a substantial advertising campaign on the flotation. We will be seeking to gain the public's attention - and participation in the flotation - by the use of TV, press, radio and poster advertising. This campaign will last until the flotation itself. Those who send in clip-out

JH2AWA



coupons from the press advertisements will receive, at the time of the flotation, copies of a "mini-prospectus" - a much shortened version of the full prospectus (you will recall that we took appropriate powers for this in the telecoms legislation earlier this year). The "mini-prospectus" will also be made available in the branches of banks and in post offices.

4 I do not doubt that opponents of the privatisation will criticise our advertising campaign. I believe that the campaign is wholly justified. Strong demand from individuals will help ensure that the Government secures a satisfactory price from City institutions for the shares it is offering. Moreover, a wide spread of shareholders is desirable not only in itself but also in the stimulus to customer satisfaction that it will provide to BT's management.

5 I am copying this letter to the Prime Minister, other Cabinet colleagues and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a long horizontal flourish extending to the right.

NORMAN TEBBIT



Handwritten initials

Treasury Chambers, Parliament Street, SW1P 3AG

1 August 1984

Andrew Turnbull Esq
10 Downing Street
Whitehall
London SW1P 3AG

Dear Andrew,

BRITISH TELECOM: SHARE INCENTIVES

At the Prime Ministers' meeting on Monday, the question of the tax treatment of the proposed BT share purchase inducements was raised. The Financial Secretary has asked me to send you the attached short note which sets out the position.

The main points are:-

- the rental voucher will not be taxed as income;
- both the rental voucher and the share bonus will be taken into account for the purpose of assessing capital gains tax, in ways which reflect the different nature of the two inducements.

I am sending copies of this letter to Callum McCarthy and Neil McMillan.

yours sincerely

F P Bogan

MISS F P BOGAN
(Assistant Private Secretary)

BRITISH TELECOM: PRIVATISATION

Telephone Bill Vouchers

1. Each share subscriber will be eligible to receive a voucher (worth about £18) for each £250 worth of shares purchased up to a maximum of 12 vouchers. One voucher at a time will be accepted by BT against quarterly telephone bills.
2. The Government will reimburse BT for an amount equivalent to the face value of the vouchers, and this will form a trading receipt chargeable to Corporation Tax in BT's hands.
3. Since the incentive is being provided by the Government and not out of BT's own assets, it will not be treated as income in the subscriber's hands (unlike, for example, a dividend paid out of BT's profits). It is however akin to a discount on the purchase price of the shares. As a result, the face value of the vouchers will be treated as reducing the acquisition cost of the shares for capital gains tax purposes - this will have the effect of increasing the amount of any gain chargeable to CGT on subsequent disposal by the shareholder.

Loyalty Bonus

4. Subscribers will be able to opt to receive, in respect of the first £5000 worth of shares originally purchased, a bonus of 1 share transferred from the Government's holding for every 10 which the subscriber holds, if the shares are held for three years. This option will be an alternative to the rental voucher. For example, if 5000 shares are purchased for £10,000, the bonus after three years would be 250 shares.
5. The tax treatment here is again straightforward. For purposes of determining any charge to CGT on subsequent disposal, the shareholder will be deemed to have acquired the bonus shares at their market value when they were transferred to him. There are no other tax implications.

PART 8 ends:-

J Redwood to fm 31/7/8

PART 9 begins:-

Ps /FST to AT 1/8/8x



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