



DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

I thought that a study of future was already kept undertaken in the Treasury and it was due to report in October.

19 August 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

There is no point in duplicating this work. PRIME MINISTER.

Content for CPRS to study Post Office telecommunications investment, with terms of reference at 'X'? MA 20/8

Dear Nick

I am writing with a proposal, which my Secretary of State supports, that the CPRS study the financing of investment in the public telecommunications service.

2 The Post Office's investment programme (which runs at about £1.5 billion a year) is concerned to support the increasing use of telephones by all sections of the community; to replace outdated Strowger exchanges by more efficient electronic switching systems; and provide the necessary support from the public telecommunications system for the development of the new information technologies which can do much to improve economic efficiency. There is difficulty finding the finance for all these investment needs; and, as members of E Committee will know, we have been faced this year with proposals for a £450 million increase in Government funding of the Post Office's telecommunications business over the year 1981/2 to 1983/4 notwithstanding an increase in the financial target set to the business.

3 The solution to these financing problems raises conflicting considerations. The Post Office management argue that they should be allowed to raise finance from the market place like a private sector firm, so as to avoid (as they see it) the need for their present customers to pay most of the cost of investing for the future. For his part, my Secretary of State is encouraging the introduction of private capital to fund some activities currently financed by the Post Office, through his proposals for legislation next session to relax the Post Office's monopoly in the provision of telecommunications services. He is also encouraging the Post Office to form subsidiary companies into which private capital could be introduced.

4 In this situation, it is agreed between my Secretary of State, the Chief Secretary, the Post Office, and the CPRS that a study by the CPRS of the options for future years would be useful, following the involvement of the CPRS in consideration of the Post Office's financial problems this year. The Post Office have proposed the following terms of reference for the study of the medium term:

/To ...



x/

'To examine Britain's needs for a public telecommunications service in the next 10 to 15 years and how the investment needed should be financed'.

5 These terms of reference embrace the financing of all the public telecommunications services currently provided by the Post Office, including those aspects of the service where private sector companies could in future have a role. They are acceptable to this Department, and, we understand, to the CPRS.

6 The Treasury are also content with them on the understanding that any new proposals for financing the telecommunications investment programme which call in question the financing arrangements for nationalised industries generally would be reviewed in a separate wider study.

7 Any advice which the CPRS can provide in time for decisions on telecommunications investment in this year's investment and financing review would be very welcome, though the completion of a full study might of course be outside that timescale.

8 We would accordingly be grateful for your agreement to the proposed study by the CPRS proceeding on a priority basis. Copies of this letter go to the private secretaries to members of E Committee, and to Robin Ibbot at the CPRS.

*Yours sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary