L. D. Wolfson.
A. Walters
A. Duguid.

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

10 April 1981

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

12
10/4

Dear Keith

BT'S INVESTMENT PROGRAMME

You wrote to me on 5 March about the problems that we face in providing for BT's investment programme in 1981-82 and thereafter and your letter included financing proposals which attempted to deal with the problem.

I share the view - as clearly do the Prime Minister and Robin Ibbs also - that a modern telecommunications industry is essential for the UK's future industrial and commercial prosperity and that we should if at all possible enable BT to maintain a programme of investment adequate for this purpose. There is no doubt room for argument as to precisely what level is adequate at any time. But I have little doubt that the £200m of investment that is immediately at issue for 1981-82 can be justified both in terms of cost-saving to BT and on wider industrial grounds. As you say, Treasury officials (in collaboration with your Department and BT) have been involved in quantifying the benefits of this tranche of investment. The cost-savings alone are very striking, even if other benefits such as improvements in quality, developments in new services and spin-off to the private sector are left out of account.

My problem is how to agree to this investment - which will mean increasing BT's 1981-82 EFL - without putting the public expenditure and PSBR totals at risk. The importance of keeping control over these aggregates for the remainder of this Parliament hardly needs emphasis. I am bound to say that your proposals do not appear to overcome the problem. While BT remains in the public sector - in other words, short of a degree of privatisation not yet envisaged - sums raised by BT whether from the NLF or private sector sources

/are part of the PSBR.

are part of the PSBR. Despite this I have been anxious to see if more direct methods of market borrowing through some form of BT bond could bring benefits to monetary control and greater market disciplines on BT's performance. My officials and yours have had a number of discussions with BT and Warburgs, but the various proposals considered so far do not seem to offer benefits of this kind.

For the immediate future any increase to BT's EFL in 1981-82 will therefore have to come from the Contingency Reserve. The reserve, although larger than in previous years, is barely adequate in relation to the uncertainties (eg arising from possible developments in coal or steel) that lie ahead. To allocate £200m to BT now must involve considerable risk that other desirable but currently unforeseen expenditure will be squeezed out later or that we will exceed the planned totals.

Nor is £200m the end of the story. As your letter makes clear, BT are likely to be seeking a further increase later this year. Your letter refers to a total of £450m. I understand that BT have now revised their estimate of total requirements downwards to £320m, ie £120m above the £200m immediately at issue. This reduction is welcome as far as it goes. But with demands as large and as volatile as this, there must be a real danger either that we face a succession of claims by BT during the year or that money that we make available for investment in systems modernisation is used instead to make up shortfalls in revenue or to cover cost escalation. It is essential to guard against both possibilities - and I have a number of points to make in relation to this. However, for the present, while I take note of BT's estimate of their likely requirement, I can give no undertaking that further funds will be made available for BT later this year. Indeed, I would expect BT to take all steps available to them to minimise the need for more. Settlement of a pay increase at a level no higher than assumed in their EFL calculations is one vital aspect of this: I would regard an excessive settlement as eroding their claim to further funds this year.

There are a number of conditions - concerning the use to which additional finance is put, the need to cut costs and increase efficiency, and progress towards increased competition and privatisation - that seem to me essential counterparts to an immediate increase of £200m in their EFL.

/First, we must have

First, we must have an explicit understanding from Sir George Jefferson that the £200m is used for investment and for no other purpose. This assurance would need to be supported by appropriate accounting arrangements to ensure this. It would be intolerable if the money were to be used for general support or to concede excessive pay increases. All in BT and the unions must accept that it was earmarked for investment only.

Second, there must be a wide-ranging and sustained drive by BT to cut costs and improve efficiency. I suspect that there is ample scope for this - see, for example, their failure to control stock levels which was a factor underlying the EFL increase in 1980-81. A number of lines of approach seem to me to be necessary. We need to ensure that the approach to cost-saving is radical and determined, and for this some form of outside enquiry is, as you imply, essential. The Monopolies & Mergers Commission is one possibility. Their recent enquiries into the Post Office and the commuter railway have been thorough and useful. They have relevant resources which they could supplement as necessary by hiring consultants. Alternatively it would be possible to employ management consultants direct. If so, it would be necessary to see that they had a remit sufficiently wide to allow them to investigate efficiency, manning levels, restrictive practices, and not simply the financial aspects of the business. A wide-ranging enquiry, however conducted, is bound to take time. But if it were mounted quickly with a requirement to produce an interim report within 3 months some of the benefits should come through in the present financial year. I should like my officials to be consulted about the terms of reference of the enquiry.

To buttress this effort we need a satisfactory agreement with BT about the level of their financial target and about performance aims. The existing published financial target is 5 per cent return on assets, but last summer E Committee increased this to 6 per cent for 1980-81 and 6½ per cent thereafter, although these increases have never been announced. This is an unsatisfactory position. If 6½ per cent is an over-ambitious objective for a recession year, I should like to know what level you think should be adopted. As far as the performance aims are concerned, BT will have to make real efforts to recover lost ground in relation to these. Here, after doing quite well for two years, they came badly adrift in 1980-81. As a starting point they should for the next two years (which are the remaining years of the target period) adhere to the level implied by the existing

/aim ie a 5 per cent

aim ie a 5 per cent annual average reduction in real unit costs.

My third condition concerns increased competition and privatisation. Again there are two sides to this. First, BT must work positively with the changes proposed in the Beesley report, if we finally decide (as I imagine we may well do) to adopt its recommendations; and they should be ready to absorb any costs arising within their EFL. Second, there is the privatisation of the central network. Many of our problems in financing BT's investment programme would disappear to the extent that the Corporation's assets could be transferred into the private sector. I realise that we cannot hope for significant progress in 1981-82 but we should go as far and as fast as we can. I know that thought is being given to regionalising BT's accounts. What I think is lacking is a firm time-table covering this and all the subsequent stages - establishing subsidiaries or preferably associated companies, legislative action, and so on- which would ensure that action is carried forward. Any help that management accountants can give to this exercise (as you have in mind) is welcome. But the main thing is to establish a time-table quickly and then to keep up the pressure.

All these elements are necessary if BT's demands for increased funds are to be met within agreed totals for 1981-82 and if we are to take some steps towards avoiding a recurrence of this problem in subsequent years. I do not see any other basis on which I could be expected to agree to such a substantial increase (£200m) as is currently proposed. As it is, we will not wholly eliminate the threat to overall public expenditure arising from BT's position.

Finally, I confess to some frustration and disappointment that we have not collectively been able to devise some alternative methods of financing that would both tap new sources of savings and bring market disciplines to bear on BT's performance. I very much hope that BT will come up with further ideas in this area. So long as the criteria above can be met we shall give them every encouragement.

The next step is for your officials (in consultation with mine) to hold urgent discussions with BT to secure their agreement on the various conditions I have proposed.

/Subject to that

Subject to that I would be willing to agree to an immediate increase in their 1981-82 EFL of £200m. This will of course need to be announced as soon as possible.

In view of the importance of this issue, I am copying this letter to the Prime Minister, to all members of E Committee, and to Sir Robert Armstrong.

GEOFFREY HOWE

Post & Tele 2

Prime Minister

Treasury & DoI seem close to agreement on BT's additional £200m.

MAP 21/v

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

21 May 1981

cc Mr Wolfson
Mr Wallas
Mr Duguid

Dear Keith,

BT's INVESTMENT PROGRAMME

In Geoffrey Howe's absence abroad I am replying to your letter of 8 May on this subject. This gives your and BT's response to the conditions set out in Geoffrey's letter of 10 April which should accompany an immediate increase of £200 million in BT's EFL.

There were 3 main sets of conditions. On the first, which concerned arrangements to ensure that the additional sums are used only for capital expenditure, the response seems satisfactory; and I note that BT are not now seeking any assurance about future funds beyond the figure of £200 million.

The second set of conditions concerned the financial target and performance aims and the need for an outside enquiry into the scope for cost-saving in BT including savings in 1981-82. On the question of the financial and performance objectives, I am content that our officials and CPRS should look further at what are appropriate objectives and report back; and that for the financial target BT should aim to secure in 1981-82 a 5% return on their net assets.

However I remain very concerned about the possibility of further claims by BT on external finance later this year. I accept that since there are already two groups of consultants (Coopers & Lybrand and McKinseys) looking at aspects of BT's operations it would be unreasonable to require BT simultaneously to take on a third body of this kind. But the type of study we had in mind, which was concerned with the scope for cost-saving and greater efficiency, goes wider than financial and management controls and organisational restructuring, important though these are in the medium term. I must therefore ask that as a minimum the existing consultants should add the search for possible cost-savings to the work that they are already doing; and that additional instructions should be given to ensure that they take this dimension into their work. If I can have your assurance on this point I would be ready not to press the issue of a separate enquiry further for the time being.

The remaining conditions concerned increased competition and privatisation. I note that Sir George Jefferson is prepared to accept the competitive environment envisaged by Beesley and that BT are considering establishing subsidiaries wherever there is a commercial reason for doing so. However this falls somewhat short of the firm time-table that Geoffrey Howe had wished to establish and I think that a rather clearer view about the direction and speed of progress is essential. I would therefore suggest that our officials and CPRS discuss this further with BT in the light of the forthcoming CPRS report with a view to establishing a time-table of this kind.

Subject to your agreement on these points I would be willing to agree to the £200 million increase in BT's EFL for 1981-82. This should be announced by means of a PQ as soon as possible on the basis of a text agreed between our officials.

Copies of this letter go to the Prime Minister, to all members of E Committee and to Sir Robert Armstrong.

Leon

LEON BRITTAN

21 MAY 1981

JH 115

Post + Telecomm

Mr Walters
Mr Duguid
Mr Wolfson

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 May 1981

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

12/5

Dear Geoffrey,

BRITISH TELECOM FINANCING

In my letter to you of 8 May, I referred to the need to find a long-term solution to British Telecom's financing problems.

In this context, you may like to see a recent personal letter from Sir George Jefferson, which gives some idea of the strength of his feelings on the matter. I enclose a copy. In the light of the points which Sir George makes, I believe that we should make real progress by the early summer in identifying practical solutions to the problem, so as to enable the issue to be resolved within the timescale of our consideration of the Beesley report. I suggest that officials hold discussions without delay about different forms of a bond and any other options for a solution.

I am copying this letter, with a copy of Sir George's letter, to the Prime Minister.

Yours

Keith

British Telecom

from the Chairman
Sir George Jefferson CBE

British Telecom
2-12 Gresham Street
LONDON
EC2V 7AG

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National 01-357 3773
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Telex 883051
Prestel Page 383

16 April 1981

PRIVATE & PERSONAL

The Rt Hon Sir Keith Joseph Bt MP
The Secretary of State for Industry
Department of Industry
Ashdown House
LONDON SW1E 6RB

Dear Sir Keith,

This is a private and personal letter to you in confirmation of one aspect of our short private discussion on Tuesday.

In that discussion I indicated that I regard it as absolutely essential to my ability to run British Telecom as a satisfactory business and to lead it in the direction in which I believe the Government wishes, that a solution should be found to enable it to be seen that the BT Board will be free to raise finance outside the PSBR constraints, and in a manner suitable to its needs and the realities of the status of the business and its environment.

I do not regard the pressures from the Treasury for network privatisation, or short of that, the use of profit-linked bonds, as being realistic or attainable in the context of the current Bill and the present thoughts on regulation.

I hope my track record of support for privatisation of British Aerospace will serve to give credibility to my assertion that the above statement is related to practicalities, not to dogma on my part.

The form and publication of Beesley and the timescale in which the Government will now be committed to pronounce on it, add an urgency to the solution of this problem.

Whilst I recognise the difficulties of the Treasury, I must plead that the liberalisation aspects of the BT Bill put BT as a nationally-owned industry in a special situation, with a right and need for special treatment in this respect.

/If

PRIVATE & PERSONAL

If I am to maintain credibility as Chairman in the eyes of this organisation, I must have a solution to this problem in place by the time you reach conclusions on Beesley, particularly if those conclusions are anything like those originally envisaged.

We have therefore probably only until about the summer recess to solve this matter.

I am sorry to press this on you, but whilst I have all my life undertaken difficult tasks, I have also had to learn to recognise impossible ones. I must also make very clear the importance I attach to time for adjustment in relation to any major changes that you may envisage.

I hope we can discuss these matters further when I return from abroad.

Best wishes

Yours sincerely

SIR GEORGE JEFFERSON

12 MAY 1981

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212
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Secretary of State for Industry

2

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

8th May 1981

Prime Minister

A progress report on BT.

Dear Chancellor

BT's INVESTMENT PROGRAMME

Thank you for your constructive letter of 10 April recognising the place of a modern telecommunications industry and infrastructure in the economic welfare of the nation.

2 For my part I recognise the difficulties any increase in BT's EFL has for your control of public expenditure and the PSBR totals. I have emphasised this point to Sir George Jefferson, with whom I have discussed the 3 sets of requirements you set out as preconditions for increasing BT's EFL for 1981/82 by £200m.

3 Sir George fully appreciated our concern about the £200m being used for investment and for no other purpose. He is prepared to provide auditors' certification to demonstrate that the money was used for capital expenditure. He has made clear to the Unions that a moderate pay settlement is essential to safeguard BT's investment programme. I am satisfied that both he and the Unions understand our position.

4 Your second requirement related to importing external expertise to assist BT achieve greater cost savings. The Prime Minister has suggested that this should also look at the opportunities for savings in the longer term, particularly from greater efficiency as new technology is introduced over the next few years, including the opportunity to break restrictive practices. Sir George fully accepts the need to restructure BT's organisation and functions and to introduce a proper financial and management accounting system into the business. He has already set up an integrated team under the new board member for finance, Mr Perryman, to achieve this and has asked both McKinseys and Coopers and Lybrand to assist the team.

CONFIDENTIAL

5 Coopers are well placed to look at BT's financial and management controls since they will have to audit the accounts. They are in particular being asked to help speed up the introduction of integrated modern management accounting systems at all levels in BT. McKinseys' role will be to assist BT in an organisational restructuring aimed at shortening lines of communication, coupled with a movement to profit centre accountability. They have looked at BT in the past and I am told that they have the right expertise to recommend improvements in efficiency of the kind the Prime Minister has in mind, notably in the areas at present affected by restrictive practices. I am sure Sir George is right in wanting McKinseys and Coopers to be closely involved with Mr Perryman's team so that BT management can identify with their recommendations - the point made by the Prime Minister - and so accept them more readily.

6 This will be a large exercise, involving a lot of top management time, and its aim will, effectively, be to transform long established civil service traditions into a commercial enterprise. In the short term Sir George sees little prospect of squeezing any more savings this year, beyond the £250m he has already achieved, without cutting back on the vital network modernisation programme. He emphasised that there would be a 4% growth in BT's overall system but no increase in staff in 1981/82. In the circumstances I do not think it businesslike to distract top management time from BT's main priority of reorganising itself in response to new competitive and technological conditions for the sake of a separate exercise with the outside consultants to find short-term savings which at best are likely to prove small. However, if potential savings come to light in the course of McKinseys' or Coopers' investigations, BT would of course implement them urgently with a view to helping to bridge the remaining financing gap in 1981/2; I know that BT have in mind to steer the course of the investigation so as to produce benefits as soon as possible. We may also have some particular ideas, relating principally to the medium and longer term, which we would want to see included in the terms of reference.

7 I am sure we should establish another financial target covering the next few years. As you acknowledge, the 6½% level agreed last summer may not be appropriate in present circumstances and I agree with the Prime Minister that the existing performance aim may also need redefining if we are to get BT fully committed to its achievement. I think we need to ask officials, in consultation with CPRS, to report on both these objectives as soon as possible in the light of the discussions which have already been set in hand with BT. In the meantime, and without prejudice to the level of financial target which we may decide is appropriate for 1982/83 onwards (which will have to be considered in some detail in the course of the Investment and Financing Review), I think I should say in announcing the £200m increase in BT's EFL what return on net assets in the current year

the Government expects BT to achieve. I think this should probably be 5%, which would be consistent with the last published target (approved by the last Government). It would compare with 4.6% achieved in 1980/1 and should give BT management a challenging task since on present forecasts they will only achieve a return of 3.7% without a November tariff increase and not more than 4.7% with one.

8 Finally, as regards competition and privatisation, Sir George was prepared to accept the fact that BT would have to adjust to the competitive environment envisaged by Beesley, although he wanted to see clarified your suggestion that BT absorb any costs arising within their EFL. Whether or not these costs can reasonably be absorbed will of course depend on an evaluation of Beesley which has yet to be made.

9 On privatisation, Sir George explained that BT was actively considering ways and means of setting up separate subsidiaries in whichever areas of its activity there was a commercial reason to do so. Work is most advanced in the area of attachments and it is here that we might expect some results in the shorter term. BT is prepared to outline its thinking here in further discussions with officials.

10 I believe that Sir George is fully aware of the need to satisfy both the Government and the public and that BT is making every effort to put its own house in order and that it is not seeking an increase in its EFL to cover up its own deficiencies. I therefore suggest that officials should get together now with CPRS and BT as the Prime Minister suggests, and agree on the terms of an announcement to be made as soon as possible.

11 At the same time, I do not think we should give up our efforts to find a long-term solution to BT's financing problem consistent with our public expenditure and PSBR requirements. Sir George reiterated his interest in some form of bond and there may also be some possibility in joint leasing companies with the private sector. Now that we are agreed about the commercial justification of an adequate telecommunications investment programme, I am sure that we need to find new mechanisms for financing it consistent with our policy for introducing greater private sector capital and say into the public sector. We invited the CPRS to report on this subject some time ago and I suggest we re-examine possibilities as soon as we have the report, bearing in mind particularly the desirability of promulgating clear public guidelines as envisaged by the Prime Minister.

12 I am copying this letter to the Prime Minister, to members of E Committee and to Robin Ibbs and Sir Robert Armstrong.

Yours sincerely Richard Riley

for KEITH JOSEPH
(Approved by the Secretary of State and signed in his absence)

Post v Tel

10 DOWNING STREET

Mr Lankester TL
1/5

I doubt if the PM needs to see this yet.

CPRS and DoI have good reasons for preferring McKinseys or Coopers to the MMC.

A letter from KJ will make these points shortly.

Andrew D.
30/4.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

cc A Walters
A Duguid
D Wolfson

Cabinet Office
CPRS

Post
&
Tels NBorn

From the Secretary of State

CONFIDENTIAL

Tim Lankester Esq
10 Downing Street
London, SW1

29 April 1981 29/4

Dear Tim,

My Secretary of State has seen the correspondence on BT's investment programme, resting with your letter to John Wiggins of 14 April.

My Secretary of State agrees that there is a case for an outside enquiry into possible cost savings. He suggests that further consideration by officials should be given to the form of such an enquiry before a final decision is taken. There seems much merit in continuing to build up the use of the Monopolies and Mergers Commission as the principal instrument for investigations into the costs and efficiency and standards of service of nationalised industries unless there are compelling reasons to the contrary. In that way the Commission build up experience of the industries which in turn can further increase their effectiveness. The Commission themselves use management consultants where appropriate. Their reports so far on nationalised industry references have been searching and realistic. As to whether management would identify itself better with an enquiry mounted by consultants rather than by the Commission, he thinks that while there is a risk of some management hostility to any external enquiry wished upon an organisation by Government, the Commission has so far established a good working relationship with the bodies it has investigated under Section 11.

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary

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CONFIDENTIAL

JS

cc last para

+ AW
~~AD~~
DW

10 DOWNING STREET

From the Private Secretary

14 April 1981

Dear Tim,

BT's INVESTMENT PROGRAMME

The Prime Minister has read the Chancellor's letter of 10 April to the Secretary of State for Industry about BT's investment programme. She agrees with the Chancellor's proposition that £200 million should be added to BT's EFL for 1981/82 for investment purposes on certain conditions - subject to the following points:

(i) The Prime Minister very much agrees that there should be an explicit understanding that the £200 million should be used for investment and for no other purpose.

(ii) As regards the condition that there should be an outside inquiry into cost saving, the Prime Minister suggests that this should look not only at cost saving in the immediate future but at the opportunities for greater efficiency which will rise as new technology is introduced over the next few years. For example, the latter should provide a unique opportunity for breaking restrictive practices. With this in view, the Prime Minister feels that it might be better to use management consultants to carry out the inquiry rather than the Monopolies and Mergers Commission. This would make it more likely that BT's management would identify itself with the inquiry and see it as a useful management tool.

(iii) The Chancellor acknowledges that the 6½ per cent financial target agreed by Ministers last summer may not be appropriate in present circumstances. The Prime Minister believes that there may also be some doubt about the appropriateness of the existing aim of a 5 per cent annual reduction in real unit costs which the Chancellor proposes to observe. This objective was set in very different economic circumstances, and it might be desirable for it to be re-defined along with the financial target.

(iv) The Prime Minister very much agrees that rapid progress should be made on competition and privatisation, and with the

/ implementation

JS

implementation of the proposals in the Beesley Report. However, she believes that further studies should not be confined to the creation of private regional companies: for there may be more promising options, for example, in the creation of joint ventures in the attachments and services fields, and competitive alternative networks.

(v) The Chancellor refers in his penultimate paragraph to the difficulty of devising alternative methods of financing, and he expresses the hope that BT will come up with further ideas in this area. In the Prime Minister's view, the need is much more for the Treasury and for the Department of Industry to agree on clear, and not hopelessly impossible, rules which could be made known in the City so that we can tap the resourcefulness of wider interests.

(vi) The Prime Minister assumes that there will need to be further discussions about the announcement of the £200 million increase in the EFL, and the associated conditions. She suggests that the CPRS might be involved in these discussions.

I am sending a copy of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

Tim Lankester

A.J. Wiggins, Esq.,
HM Treasury.

c. D. Wolfson
A Walters
A Duguid

MT

Prime Minister
The Chancellor has at last taken a decision on BT's investment programme. There are some useful CPRS comments below; if you agree, I will pass them on to the Treasury and D.o.I. as representing your views. Content?
TL 13/4

Yes MT

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Qa 05317

To: MR LANKESTER

From: J R IBBS

13 April 1981

BT's Investment Programme

Flag A

1. You asked for our views on the Chancellor's letter of 10 April to the Secretary of State for Industry.

2. We agree that the £200m. of investment immediately at issue for 1981/82 is fully justified on cost saving and wider industrial grounds. We also agree generally with the three conditions proposed by the Chancellor, subject to certain reservations.

Condition (1): We agree that there should be an explicit understanding that the £200m. should be used for investment and for no other purpose.

Condition (2): We agree that there should be an outside enquiry into cost saving. This should, however, look not only at cost saving in the immediate future but at the opportunities for greater efficiency which will arise as new technology is introduced over the next few years. For example, this should be made to provide a unique opportunity for breaking restrictive practices. This suggests to us that, of the alternatives proposed by the Chancellor, there may be merit in using management consultants rather than the Monopolies and Mergers Commission. We want BT management to identify itself with the enquiry and to see it as a useful management tool: we would hope they would see management consultants as useful reinforcements to their own efforts.

The Chancellor acknowledges that the $6\frac{1}{2}$ per cent financial target agreed by Ministers last summer may not be appropriate in present circumstances. In our view there is equally some doubt about the appropriateness of the existing aim of a 5 per cent annual reduction in real unit costs which the Chancellor proposes to preserve. This objective was set in very different economic circumstances and, in our view, should be redefined along with the financial target.

Condition (3): Like the Chancellor we feel that rapid progress should be made on competition and privatisation, and with the implementation of the proposals in the Beesley Report. We believe, however, that further studies should not be confined to the creation of private regional companies: there may be more promising options, e.g. in the creation of joint ventures in the attachments and services fields, and competitive alternative networks.

3. We have two further points on the Chancellor's letter:

(i) In his penultimate paragraph he refers to the difficulty of devising alternative methods of financing, and hopes that BT will come up with further ideas in this area. In our view the need is much more for the Treasury and the Department of Industry to agree on clear, and not hopelessly impossible, rules which could be made known in the City so that we can tap the resourcefulness of wider interests.

(ii) There will need to be further discussions about the announcement of the £200m. increase in the EFL, and the associated conditions. We suggest that the latter should be agreed between the Departments concerned and that the CPRS might be involved.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JR

CONFIDENTIAL

File

Post Telecoms

BV 13/4/81

10 DOWNING STREET

From the Private Secretary

MR. IBBS
CABINET OFFICE

I should be grateful for your views on the Chancellor's letter of 10 April on BT's investment programme. Since the Prime Minister is leaving on Tuesday, could I please have this by Monday evening?

I am sending a copy of this note to David Wright (Cabinet Office).

T. P. LANKESTER

10 April 1981

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