

SUBJECT  
cc master

file

JA  
cc BCY ✓



10 DOWNING STREET

13 December 1985

From the Private Secretary

Dear Stephen,

**CABLE AUTHORITY**

Mr Richard Burton, Chairman of the Cable Authority, came to see the Prime Minister this afternoon.

He first explained the slow progress being made in introducing cable television, speaking along the lines of paragraph 3 of your helpful brief. He explained that the Cable Authority were looking for ways of boosting investment in cable without cutting across the Government's general strategy. The Authority have identified two: the extension of enterprise zone benefits to cable systems which started within a zone, and the granting of capital allowances for the installation of switch cable systems.

The Prime Minister gave these ideas no encouragement, but said they would be considered. Mr Burton left the two notes, attached.

He told me afterwards that he would also send them separately to the relevant Departments.

I am copying this letter to Tony Kuczys (HM Treasury), Michael Gilbertson (Department of Trade and Industry) and to Sue Vandervord (Department of the Environment).

Yours ever  
David

(DAVID NORRGROVE)

Stephen Boys Smith, Esq.,  
Home Office.

cc PLS



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

on Thursday  
B/F/ for the  
meeting please ~~hand~~

6 December 1985

Dear David,

In your letter of 23 September to Christine Heald, you asked for briefing for the Prime Minister in time for her meeting with Mr Richard Burton, the Chairman of the Cable Authority, on ... 10 December. This is now attached.

I am copying this to Tim Abrahams in DTI.

Yours ever

MS C PELHAM

David Norgrove, Esq



*BUP*  
*cc RA*

THE PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF THE CABLE AUTHORITY,  
MR RICHARD BURTON, 10 DECEMBER 1985

BRIEFING BY THE HOME OFFICE

Introduction

We understand that this is primarily a courtesy call. Mr Burton has similarly met the Home Secretary and Mr Pattie during the past three weeks. We do not expect Mr Burton to raise substantive issues and the occasion will provide an opportunity for the Prime Minister to re-affirm the Government's commitment to cable at a time when it is going through a difficult period.

POINTS TO MAKE

1. Congratulate Mr Burton and his fellow members for successfully establishing the new Authority over the past year.
2. Regret that progress in establishing cable systems has not been as rapid as hoped due to factors outside the Authority's control and in particular the investment climate.
3. Reconfirm the Government's belief that cable has <sup>*an important*</sup> [a vital] role to play in the future pattern of telecommunications and in widening the choice of television services available to the public.

DEFENSIVE BRIEFING

Capital allowances, taxation and grants

The removal of capital allowances in the 1984 budget hit cable particularly hard. Home Office and DTI Ministers have drawn these difficulties to the attention of the Treasury but recognise that there is little scope for making special exemptions. The industry is developing some proposals for easing the tax position of cable and suggesting possible use of science and technology grant schemes. If raised the Prime Minister should say that she understands that the industry is planning to produce proposals in this area and should encourage Mr Burton to



discuss them in the first instance with DTI Ministers, when they are available.

#### The involvement of British Telecom

British Telecom with its large financial and technical resources has a potentially important role to play in re-vitalising interest in cable. However, the Cable Authority believes that BT is only prepared to play where it can achieve a monopoly position. It is not, for example, prepared to take a share in a cable operation unless it has the controlling interest, and it is unwilling to allow its telephone ducts to be used by other cable operators in order to reduce installation costs. If raised the Prime Minister should say that she is aware of these matters and that she understands that DTI is actively considering them.

#### BACKGROUND

##### The Cable Authority

1. The Cable Authority was established by the Cable and Broadcasting Act 1984 with a duty both to promote and to regulate cable. Mr Burton was appointed as Chairman in November 1984. He is 61, was trained as a barrister, and spent most of his career with Gillette Industries, serving as Chairman for six years until shortly before his appointment to the Cable Authority.
2. In the year since his appointment Mr Burton has successfully established the Cable Authority, which now has its full complement of six members in addition to the Chairman and recently moved into premises in Victoria. It has an executive staff of four, in addition to a Director General.

##### Progress of Cable

3. A fuller note on the present state of cable is annexed. This describes a depressing picture:
  - (a) there is a famine of investment, partly as a result of the removal of capital allowances in the 1984 budget, and partly because investors have no confidence at present that the high costs and risks of cable will reap adequate returns;



- (b) of the 11 'pilot' projects started before the establishment of the Cable Authority, 7 are operational but none has yet more than a few hundred subscribers;
- (c) so far cable services have only been taken up by about 15% of potential subscribers;
- (d) Thorn EMI appears to be losing interest in cable, raising doubts about two of the more successful systems - Swindon and Coventry;
- (e) all of the first 5 advertised franchises are having difficulty raising finance;
- (f) almost no interest has been shown in the second 5 advertised franchise areas;
- (g) the Authority is revising its projections so that instead of advertising 30 franchises over the next two years as originally envisaged, it expects to advertise only 6;
- (h) there could be knock-on effects on programme providers if they do not see an adequate growth in the subscriber base;
- (i) the finances of the Authority - which is intended to be met from licence fees - will be affected because of the slow growth of new services. The Home Secretary has made it clear to Mr Burton that the Home Office will continue to assist the Authority with loan finance until its prospects improve.

#### The future

4. There can be no certainty at this stage that cable will become profitable in the near future. The prospects are somewhat volatile. If there were to be a rapid growth of new and attractive programme services this might make cable services more attractive to subscribers and improve returns on capital. However, these services are likely to be delivered by satellite and a growth of interest in the



direct reception of these satellite services over the next few years might choke off the opportunities for the cabling in new areas of the country.

5. Interactivity is probably an important selling-point of cable in the longer term, but the technology is expensive and there is little interest in using interactive facilities until the choice of services is larger. This will take time.

At present there are no interactive services operating. The Department of Trade and Industry has made £5m available to provide 50% funding for demonstration projects, in order to encourage cable services to experiment with interactive projects. The first interactive service is likely to be in Docklands, catering primarily to business rather than to domestic users.

Home Office

5 December 1985

## THE CURRENT STATE OF THE CABLE INDUSTRY

Introduction

Cable continues to progress more slowly than first envisaged, and there appears to be little likelihood of improvement in the immediate future. The main reason is that it has not yet been able to generate the confidence of investors that the prospects are sound and the risks worth taking. In short, there is a famine of investment which is likely to continue until financial institutions can see such a demonstration of success from actual operations that they are convinced of the return to be made. The feeling of the Cable Authority and some parts of the industry is that it will be at least two years before a change of climate can be expected.

The eleven pilot projects

2. It is now two years since the Government awarded the eleven\* pilot project franchises, and seven of those eleven are now in operation. Two of them however - Swindon and Coventry - are likely not to proceed very much further unless they can gain a further injection of funds from other investors. Both are controlled by what had previously been regarded as one of the more solid and committed companies in the field, Thorn EMI. Thorn have, however, had difficulties on a broader front and are looking to reduce their commitment in those areas which add nothing to the group's profitability; cable operations is one of these. Thorn stopped installing the Swindon system a little while ago, and may soon be in the position of having to renegotiate the terms of their licence. They have never been able to push the penetration rate in Swindon above 12%, a figure which will persuade no-one that cable investment is a worthwhile proposition. The company's diminished enthusiasm has also held back progress in Belfast, with British Telecom apparently now the only one of the shareholders in Ulster Cablevision to have any interest in proceeding.

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*Operational: Aberdeen	not yet operational: Ealing
Clyde	Guildford
Coventry	Merseyside
Croydon	Ulster
Swindon	
Westminster	
Windsor	

As a result, the venture there is on ice for the time being. Another of the eleven, Merseyside Cablevision, has been struggling for almost two years to raise the money to permit it to go ahead, without very much progress; it is still in negotiation with prospective new investors.

The five advertised franchises

3. Of the five franchises the Authority awarded in August, Shaw Cable (Wandsworth) has collapsed due to the withdrawal of its original investors because they did not believe that cable represented a good investment. One of the others, Bolton Telecable, have made clear their view that the financial environment for cable is totally hostile and that they see no way in which they can raise the capital they need in the foreseeable future. A third, East London Telecommunications, are determined to press ahead with a placement of their shares but their financial advisers have told the Cable Authority that they are pessimistic about their being able to raise the capital. If they are correct, this will add to the spiral of depression. The fourth company, Cotswold Cable, already have most of the commitment they need from their existing shareholders to make a modest start, but also need to raise further capital. It remains to be seen how well they can do this.
4. The fifth of the franchises is Rediffusion, and their franchise application for West Surrey and East Hampshire specifically said that the venture would be financed entirely from the resources of the Pergamon Group. Mr Maxwell, however, does not have a bottomless purse and is apparently now seeking to raise money from other investors to help his cable operations. Those cable operations involve not only the new broadband systems but Rediffusion's existing upgrade systems. In fact, Rediffusion have still not been able to find the money to convert some of the systems which were licensed by the Home Office. Indeed, they hold licences for eleven systems which are still not operational and these pass almost 300,000 homes. Their failure to activate these systems is explained in part at least by the fact that those systems



which are operational will make a loss of about £14 million in the current year, far divorced from the assessment of the Economist Intelligence Unit two years ago that the provision of new services over Rediffusion's old systems would be highly profitable.

#### The second round of advertised franchises

5. The Authority tell us that almost no interest has been shown in the second round of franchises which have been advertised, even though applications can be made without the need to show initial capital. The Authority has been forced to conclude that it cannot proceed with its franchising programme in the form in which it was announced, (5 new areas every 4 months), and that no new areas should be advertised for the present. Over the next few months, it will watch the market to see when a new round might prove worthwhile. It hopes that there may be a continuing trickle of interest (British Telecom is a likely contender if DTI are prepared to sanction it), but cannot be certain.

#### The next two years

6. In total the Authority estimates that it might be reasonable to expect 6 new franchises to be advertised over the next two years, instead of the 30 originally intended. It hopes that after this period confidence will be recovered to the extent that it can resume its previous timetable. The Cable Television Association accepts the reality of this forecast.

7. The Cable Authority is looking at ways of improving the current prospects, including more active promotion, but recognises that the only real incentive to new investment will be a demonstration of actual success in a cable operation. There is no immediate prospect of this.

#### Programme provision

8. The slower growth of cable will hit the programme providers who are currently operating at a loss in the UK market, but who have based their optimistic projections of future audiences upon

the rate of growth implicit in the Authority's original franchise timetable. There is a risk that the revised projections will send a tremor through the programme industry. Any reductions in the number or quality of programmes available to cable subscribers would be a serious blow since at present the only attraction of cable lies in providing a good range of alternative programmes. W H Smith has recently become involved in a new 'Lifestyle' channel and British Telecom is strengthening its involvement in programme provision as a prerequisite of ensuring a market for its cable operations. The presence of these two participants should help steady the programme industry.

#### The finances of the Authority

9. The Authority itself will be hit hard by reductions in income as a result of slowing the issue of licences, and is currently assessing the detailed effects upon its budget. At present the Authority is financed by a loan from the Home Office which is due to be repaid in two years. This will now clearly not be possible and the loan will almost certainly have to be increased. (A maximum of £2 million is allowed for in the Act). The Authority has put in an immediate bid for an additional £100,000 to allow it to continue its plans to purchase satellite receiver dishes and office automation equipment. This is being resisted by the Treasury but our view is that any excessive belt-tightening imposed on the Authority at this stage would be a morale blow to its staff and members, and would be seen by the industry as the first step in a Government withdrawal from cable. We consider that the risks of this expenditure being ultimately wasted are less than the danger of upsetting morale and confidence at a crucial time.

#### The long term

10. There are no easy predictions about the long term. It is in the interests neither of the Cable Authority nor of the industry to encourage speculation, and their public position remains that the advent of cable is inevitable; the only question remaining is when. This prediction is, however, by no means certain to be fulfilled. Unlike other forms of new technology, there is

unlikely to be any significant fall in costs since the main expense is the laying of the cables. So long as the high technical standards required by the legislation are insisted upon, the cost of cable laying will not be substantially reduced. At the present time only a small minority of homes passed by cable (on average less than 1 in 6) is prepared to pay relatively high subscriptions (up to £18 per month).

11. The perceived value for money of subscribing to cable will be improved as additional programme services become available, but this will coincide with the growth of new services directly receivable from satellites at possibly lower prices. Whilst some people argue that interactivity will be an important selling point, this will be attractive only when a significant proportion of the country is cabled so providing a network of interactive services; and the American experience in this field provides no assurance that there is indeed a consumer demand for such services. In the meantime, there is growing consumer investment in telephone-linked interactive equipment using Prestel and other similar systems, which threatens to satisfy the present market for this kind of service.

#### Conclusion

12. It therefore remains a possibility that cable services of a high technical standard will not cross the threshold into profitability for some years. In the long run the Government's strategy for cable is probably still valid, but because of the slow start it may be overtaken by the development of direct reception of high and medium powered satellite systems offering quicker and cheaper access to a mass market. How the balance of advantage between cable and directly received satellite systems will develop is difficult to predict, but it is not impossible that if the latter grows quickly over the next five years it could squeeze out the market for cable. In the short term, the Government should continue to give every support to cable and avoid precipitating an irreversible loss of confidence.

BROADCASTING  
CABLE SYSTEMS  
P.T.S.



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Further copies to

## CABLE DEVELOPMENT AND ENTERPRISE ZONES

Twenty-five areas in the United Kingdom have been designated as Enterprise Zones as a means promoted by the present Government of generating industrial revival. They include such places as the Isle of Dogs in the London Docklands, Corby, Dudley, Middlesbrough, Salford/Trafford, Tyneside, Clydebank, Belfast and Londonderry. Benefits available in Enterprise Zones include exemption from local authority rates, 100% capital allowances and simplification and speeding up of planning and other bureaucratic procedures.

The experience of Enterprise Zones so far has been mixed. Some have been accused of succeeding only by beggaring their neighbours; others are not yet succeeding.

An important ingredient of industrial revival is modern communications, and the potential of cable in this respect has been perceived by the London Docklands and Clydebank, where cable franchises have already been granted, and in some other areas, such as North West Kent, where it has not so far been possible to make progress. However, Enterprise Zones are too small in themselves to constitute cable franchise areas and there needs to be encouragement for cable operators to take an interest in the larger area in which an Enterprise Zone is situated.

This encouragement could be given by a concession that a cable system whose headend was situated within an Enterprise Zone would receive Enterprise Zone benefits for the whole of the cable system which was thereby served, even those parts of it extending beyond the limits of the Zone. This would benefit Enterprise Zones by encouraging the provision of broadband communications networks to serve businesses setting themselves up in the area; it would benefit the surrounding areas by giving them the advantages of being able to enjoy the same communications facilities; it would benefit the cable industry as a whole by giving a fresh impetus; and it would meet the objective of both the Government and the Cable Authority in encouraging thinking about cable as much more than a television distribution medium.

## ENTERPRISE ZONES

The benefits available in the zones are as follows:

- exemption from local authority rates on industrial and commercial property
- exemption from Development Land Tax
- 100% capital allowances for Corporation Tax and Income Tax purposes
- exemption from levy imposed and reduction in information demanded by Industrial Training Boards
- simplification and speeding up of planning and other bureaucratic procedures
- applications for certain customs facilities are processed as a matter of priority and certain criteria are relaxed
- reduction of government demands for statistical information

The zones may vary in size from about 50 to over 450 hectares (129 to over 1100 acres).

As from November 1984 the list of zones is as follows:

**In England:**

Corby  
Dudley  
Glanford (Flixborough)  
Hartlepool  
Isle of Dogs (London Docklands)  
Middlesborough  
North East Lancashire  
North West Kent  
Rotherham  
Salford/Trafford  
Scunthorpe  
Speke (London)  
Telford  
Tyneside  
Wakefield  
Wellingborough  
Workington

**In Wales:**

Delyn  
Milford Haven Waterway  
Lower Swansea Valley

**In Scotland:**

Clydebank  
Invergordon  
Tayside

**In Northern Ireland:**

Belfast  
Londonderry

Further information including addresses and telephone numbers of contacts and special incentives available in specific areas can be obtained from:

Department of Environment  
2 Marsham Street  
London SW1P 3EB  
Tel: 01-212 7158

## CABLE DEVELOPMENT AND ALLOWANCES FOR SCIENTIFIC RESEARCH

Under the Capital Allowances Act 1968, expenditure on scientific research - including capital expenditure on pilot plant - may be offset against tax to the extent of 100% in the year in which the expenditure is incurred. Scientific research has been specifically extended to cover exploration for and development of oil and natural gas resources.

A number of UK companies have been developing switches for use in cable systems. The Government has an interest in promoting the installation of switched cable systems, not only for the sake of encouraging British industry (this is the only part of cable system hardware where there is presently a British technological dominance) but because these are the systems which will provide the interactive communications of the future.

Switch technology is as yet unproven, as indeed are modern cable systems in the United Kingdom. These uncertainties are constraining investment in the installation of new systems and are discouraging investment in particular in the more advanced - and more expensive - switch technology.

There is a case for a limited period for the installation of switched cable systems to be regarded as an extension of scientific research, in order to encourage the testing both of switch technology and of the market for new cable services. The Act gives to the Secretary of State the power to decide what should be regarded as scientific research for the purpose of its tax treatment. The capital allowances thereby made available would be a valuable stimulus to a new industry whose emergence is faltering through lack of investment confidence, and an important counter to the prevailing City view that the withdrawal of capital allowances in the 1984 Budget signalled the Government's loss of interest in the potential of cable.

DBS



DBS

cc: Mr. Warrin  
Mrs. Ryder

10 DOWNING STREET

From the Private Secretary

23 September 1985

BT | The Prime Minister has agreed to meet the new Chairman of the Cable Authority on Tuesday 10 December. Could you please provide appropriate briefing in due course?

I am copying this letter to Michael Gilbertson (Department of Trade and Industry).

David Norgrove

Mrs. Christine Heald,  
Home Office.



David Norgrove

The attached is self-explanatory.  
Michael will be at the meeting, but  
I presume that you will also be there  
as the "official" Private Secretary.  
Can we leave it to you to arrange  
any necessary briefing?

TESSA  
20.9.85

20th September 1985

This is just a note to confirm the time and date of your meeting with the Prime Minister. This is in her diary for 9.30 a.m. on Tuesday, 10th December. I look forward to seeing you then, if not before.

MICHAEL ALISON

Richard Burton Esq

Richard BURTON

Janice

for diary folder pl.

CR.

Caroline

I attach a note which Michael put in to the Prime Minister's Box in June, asking if he could bring the new Chairman of the Cable Authority in to see the Prime Minister, and to which she agreed.

Michael wrote to Mr Burton to say that the Prime Minister had agreed, that her diary was too full for the present time and that we would get in touch with him again in September.

I don't think there is any urgency for this meeting (Michael says if we could get 10 minutes in before Christmas that would be fine), but could you bring this up at the diary meeting on 16th September and let me know if you have a date and time which we can offer Mr Burton?

TESSA  
4.9.85