

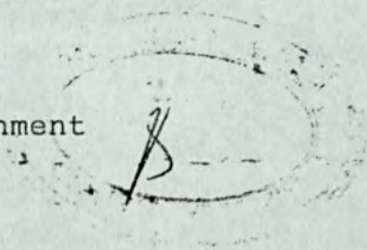
Cable Authority

RECEIVED
18 DEC 1985

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From the Chairman

Rt Hon Kenneth Baker MP
Department of the Environment
2 Marsham Street
LONDON SW1



16 December 1985

Dear Mr. Baker,

I do not think we have ever met but certainly part of a mantle once worn by you has now fallen on to my shoulders.

... We have been giving considerable thought recently to financial ideas which might help cable and I enclose short notes of two of them which seem to us to be the most promising.

I am not sending them to you merely because of your interest in cable but, principally, because I believe the one relating to Enterprise Zones may affect your Department. I have also sent copies to Geoffrey Pattie, John Moore and of course Douglas Hurd.

R H Burton
R H BURTON

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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.

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.

