

Prime Minister (4) all
To note AT 1/12
30 November 1983

MR TURNBULL

CABLE FRANCHISES

mf

Eleven consortia have been conditionally selected from thirty-seven applications to run the first pilot cable franchises. These consortia are planning to provide cable services to nearly 1 million homes in the City of Westminster, Ealing, Croydon, Windsor, Guildford, Swindon, Coventry, South Liverpool, North Glasgow, Aberdeen and Belfast.

This is an encouraging outcome and a decisive step in our cable policy.

Three general issues have arisen following these announcements.

Capital Allowances

The cable consortia have assumed that they would be eligible for 100% first year capital allowances on the £200 million of investment needed for installing cable. However, the Inland Revenue have now expressed reservations despite apparent precedents.

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If the Revenue's decision goes against the consortia, this is likely to delay the spread of cable and in extreme cases lead some companies to reconsider their commitment. Legislation would probably be needed to correct the position.

X

The only party to benefit from the uncertainty is British Telecom who are consortia members in five out of the eleven successful franchises. With BT ducting already in place, these consortia's financial projections are less heavily dependent on tax allowances.

BT Involvement

At first sight, the presence of BT in five of the successful consortia and the absence of Mercury is surprising.

Mercury did not bid in any of the consortia on the grounds that additional equity investment would not be appropriate in view

of their own commitments. However, they are actively discussing with five of the six non-BT consortia a contractual relationship for the supply of Mercury services through the cable networks. There is no need for concern at this stage that these developments indicate an inability on the part of Mercury to fulfill our hopes that they will develop into a viable competitor to BT.

Selection of Consortia

The main losers in the awards are the big existing cable television companies with the exception of Thorn EMI. Rediffusion applied for four pilot licences and succeeded only in Guildford, a small franchise covering 22,000 homes. Visionhire applied for four licences and got none. These companies are now complaining about the Government's decisions.

Our position is clear. The White Paper states clearly the criteria on which applications were to be judged. The applications were analysed by the Economist Intelligence Unit and final recommendations were made by Three Wise Men appointed as independent assessors.

Rediffusion and Visionhire simply did not measure up to the criteria, particularly in terms of the most positive contribution to the application of advanced technology. Only where advanced technology was offered by Rediffusion in Guildford did their applications meet our requirements.

All companies will be able to apply again for the larger franchises from the proposed Cable Authority. However, at this stage of cable's development the need for advanced technology is an essential element to ensure the future development of cable systems.

DLP.

DAVID PASCALL

NBM
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Nigel Lawson is aware in general terms of the problem which has arisen on 100% first year capital allowances. However, Treasury officials are not intending to put any specific proposals up to him until the Inland Revenue comes to a decision on the eligibility of cable investment for allowances.

This decision is expected shortly and I shall keep you informed of developments.

DP

DAVID PASCALL



10 DOWNING STREET

David Pascal

What is the answer to X?

Answer