



PRIME MINISTER

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Mr Jenkin concludes that changes in the structure of BT's prices is not an answer to the pensioner's concerns. The paper by officials suggests that if help is to be given to pensioners with telephones it should come from the DHSS.

Following your meeting on 18 February with the National Pensions Convention Steering Committee, you asked for a report on whether anything can be done to meet the delegation's criticisms of standing charges for telephone services.

WM
18/3

point in that some pensioners make very few calls out and return the phone for calls in.

2 The delegation's concern is understandable. The telephone is widely used in all sections of society and pensioners might appear to need it more than most. I have great sympathy for the idea that all pensioners should be on the telephone at a price they can afford.

3 The problem is one of cost. Each time it connects a subscriber, British Telecom has to make available quite a bit of equipment in the local line network and local exchange reserved solely for that subscriber's use, and this has to be paid for in one way or another. British Telecom's policy is to ask the subscriber to pay for it - together with associated interest charges, maintenance costs and overheads - over a lengthy period of years through the rental charge. The attached paper by my officials examines the arguments, but comes to the conclusion that there is no way of reducing the burden on pensioners without increasing charges to other subscribers unfairly or, alternatively, shifting the burden onto the PSBR.



4 In the light of these points, I believe that I must concentrate my policies on encouraging BT to become more efficient, so as to reduce the costs of its services to all its customers. As it is, the cost of the telephone rental has fallen quite dramatically, relative to pensioner incomes, over the last decade. Efficiency improvements by BT should assist in eliminating the losses which BT currently suffer in the rentals sector. This must be helpful to all consumers including pensioners.

5 In addition, BT's financial position in 1982 should be such as to enable them to get by without price increases on the same scale of those of the last two years. We can influence this through our power to set the financial target and I intend to review the options before BT with Sir George Jefferson and members of his Board when I meet them in the late Spring to discuss the strategic choices before them. In that discussion I shall bear in mind particularly the implications of price increases for pensioners and others for whom the rental payment bulks large.

6 I am copying this minute to Geoffrey Howe and to Norman Fowler and Nigel Lawson.

P J

18 March 1982



B/K

Port, Telecom

10 DOWNING STREET

From the Private Secretary

22 March 1982

TELEPHONE RENTAL CHARGES AND PENSIONERS

The Prime Minister has seen your Secretary of State's minute of 18 March.

The Prime Minister has commented that the paper by officials attached to your Secretary of State's minute does not look at the option that most pensioners put to her: the possibility of reducing rental charges for all customers, and increasing charges per call to recoup lost revenue. She feels that many pensioners need a telephone to cover emergencies, and to take incoming calls, but that the majority of them make very few outgoing calls. They resent the high rental charges they have to pay for a telephone on which they make few calls themselves.

The Prime Minister would welcome your Secretary of State's considered reaction to this option.

I am copying this letter to John Kerr (HM Treasury), Brendan O'Gorman (DHSS) and Julian West (Department of Energy).

W. F. S. RICKETT

Richard Riley, Esq.,
Department of Industry.

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TELEPHONE RENTAL CHARGES AND PENSIONERS

1 There are at present about 2.3 million pensioner households (rather over 35% of the total) on the telephone, and this number is projected to increase to around 4.3 million in five years time. The cost of telephone services has fallen in real terms - the rental was 8% of the pension of a single person in 1970, and is 4% today. The views of the National Pensioners Convention Steering Committee reflect a common feeling among pensioner organisations that the telephone is becoming more of a necessity than a luxury to the pensioner population, and that the current rental of £13.50 a quarter represents a considerable burden upon them.

CAN BRITISH TELECOM HELP?

2 British Telecom's rental charge is designed to cover that part of their costs which they incur to provide service to a subscriber whether or not he makes any calls; these costs comprise chiefly the depreciation charge on the equipment in the local exchange and local line network which has to be kept continuously available for the subscribers sole use, together with ^{smaller} elements for interest payments, billing, and a share of administrative overheads. Call charges cover the costs of those parts of the network (eg the actual switching equipment in exchanges) made available to a subscriber only when making a call, and connection charges cover the cost of connecting the subscriber to the local line network and installing his telephone. BT currently makes a loss running at about £250m a year on the part of its business paid for by the rental charge, and this is made good by high profits on long-distance and international calls. So any move to reduce rentals generally at the expense of other prices would run severely counter to BT's policy of seeking to charge on an economic basis, which they can expect to pursue the more strongly as competition has a greater impact.

3 But could BT reduce or eliminate its rental charge to pensioners only? It might in theory recoup the lost revenue by:

- i Increased borrowing, but this would put up the public expenditure totals;
- ii Reduced investment, but this would hit the vital modernisation programme and reduce BT's ability to provide new connections including new connections to pensioners.

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(iv) reducing rental charges for calls.

iii Increasing other charges (eg by recouping the £125m a year lost through ending rental charges to pensioners by a £7.50 increase in the annual rental of other subscribers), but the customers adversely affected would hardly agree that this was fair (and the cost to them would increase as more pensioners took up the offer of a cheaper telephone service).

4 All of these options would breach the principle that BT makes decisions on prices on a commercial basis; and they would moreover tend to direct their assistance towards the better off pensioners at least until the telephone becomes more universal amongst pensioners than it is at present.

5 We have also considered whether it would be possible to provide pensioners with a cheaper service through the greater use of shared lines. However, BT advise that the capital cost of providing a shared line to a subscriber is almost as great as that of providing a single line, and that the maintenance charges are higher; so no major reduction in rental results. We have also considered whether the cost of a telephone to a pensioner could be reduced by restricting its use (except in emergencies) to off-peak times of day. But here again we have found that the capital and maintenance costs would not be greatly reduced, so that no great saving in rental would be offered, even assuming a restricted service acceptable to pensioners.

6 The conclusion is therefore inescapable that the only satisfactory way for BT to reduce charges to pensioners is to become more efficient. The Government's policies of introducing competition into telecommunications are designed to encourage this. We already have encouraging evidence that the competitive message is sinking home in BT, and that it will help foster a climate in which inefficient working practices can be tackled and excessive wage demands countered. Increased efficiency should enable BT to continue the trend of reducing rentals relative to pensioners incomes once the losses in this sector of the business have been eliminated.

CAN THE GOVERNMENT OR LOCAL AUTHORITIES HELP?

7 Selective assistance to particularly needy pensioners is a matter for the Government or for local authorities. Under existing legislation, local authorities are empowered to provide assistance



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towards the telephone rental and installation costs of elderly, sick and disabled people particularly in need; 91,000 people in England (more in the UK) received assistance last year. Any proposal for a larger scale scheme, administered by the Department of Health and Social Security or local authorities, would inevitably increase the calls made by pensioners on the working population, to which the Prime Minister referred in her meeting with the National Pensioners Convention Steering Committee. Any such proposals would be a matter for the Department of Health and Social Security to consider.