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Prime Minister (2) Post+Tels.

Hus 2/7

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

2 July 1982

The Rt. Hon. Patrick Jenkin MP  
Secretary of State for Industry

original filed on: -

Post+Telecoms: Future of

Post office: Pt 4

MS

Dear Secretary of State,

## BT FINANCIAL TARGET AND PRICES

In your letter of 28 June you sought my agreement to the revised tariff package that Sir George Jefferson has put to you; to the setting of a two year financial target for BT, and expressed the view that a BT bond issue this Autumn could no longer be regarded as a realistic option.

I am content with the modest tariff proposals that BT now have in mind for November 1982, and note that they expect to come forward in due course with similarly modest proposals in 1983.

On the financial target, I am persuaded that our intentions on privatisation make it sensible to set a two year target now, leaving the way clear to set a target for the whole transition period at a later date. BT's willingness to work within (I would hope well within) the external financing projections in the White Paper is of course crucial. In the light of this I agree that the target should be set at 5½ per cent for 1982-83 and 1983-84. You may wish to indicate to Sir George Jefferson that if by achieving greater cost savings he is able to increase BT's self-financing in 1983-84, he should not feel constrained from doing so by the fact that this would lead to his overshooting the target. His objective should be low tariffs and high returns and we can support the achievement of the latter provided it is not at the expense of the former or a higher requirement for external finance.

On the BT Bond, I share your disappointment but accept that there is now no case for an issue this Autumn, and hence no need for an immediate decision on the effect of Clause 52 of the Finance Bill on the bond. My mind is not totally closed to an issue at a later date, but the picture has been transformed by our decision to go for the ultimate goal directly and sell equity. I do not underestimate the size of the task you and BT now have to draft and carry the legislation we agreed at E(TP). This must obviously have priority.

/Finally,



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Finally, I note that you will be having further discussions with BT on this year's EFL. In the light of these discussions we will be able to determine when, and to what extent BT will require access to NLF finance this year.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours sincerely,

Jim Rutherford

PP GEOFFREY HOWE

(Seen and approved by the Chancellor  
and signed in his absence).





Secretary of State for Industry

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28 June 1982

Prime Minister

②

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

BT is now proposing  
a rebate scheme for low  
users (see X overlay).

I suggest you await Treasury and

CPRS reactions to these proposals.

MUS 28/6

Dear Geoffrey,

BT'S FINANCIAL TARGET AND PRICES

You will recall that I wrote to Sir George Jefferson on 10 June setting out my views on BT's target, prices and EFL. I have now met Sir George and in the light of that meeting I am now seeking colleagues' agreement to making an early announcement setting BT a financial target of  $5\frac{1}{2}\%$  real return on assets on their new accounting base for the two years 1982-83 and 1983-84.

2 Setting the target raises two issues - the duration of the target and its level. BT have suggested the target be set for two years only, since the prospects for 1984-85 are so uncertain. I see some attraction in a three year target - covering rather more of the likely interim period before 50% of the shares would be sold; giving potential investors rather more of a longer-term view of the Corporation while at the same time reassuring consumers that we do not wish to allow BT to make excessive profits in order to encourage private capital. I have to say, however, that while BT are prepared to work within the parameters of the external financing projections in the White Paper for 1983-84 and 1984-85 they are perhaps necessarily rather guarded about the latter year and might conceivably hold that a  $5\frac{1}{2}\%$  target for that year required more external financing. So I would be inclined to accept the BT view, recognising that we shall need to announce a target for 1984-85 sometime in the course of the next year.

3 Second, I think  $5\frac{1}{2}\%$  on the new accounting base is the right level whether the target is to be for a two or three year period. It is probably closer than 6% would be to the kind of return which would be indicated by the 5% real rate of return criterion; it is what BT have been working on; but most important it minimises the case BT might have for price increases in November 1983 of a higher level than those proposed for this year.





4 Turning now to prices, I accept BT's arguments both that it is preferable to keep to a regular pattern of annual adjustments in November, and that a zero increase this year would have unacceptable consequences next year. Sir George has suggested a package which will result in a 3.3% increase in average bills in November with a 5.4% increase in domestic bills and a 1.6% increase in business bills. He has abandoned plans to increase the minimum public call box charge to 10p. Finally, he proposes to introduce a rebate scheme for low users, which will result in about two million low users receiving rebates. I welcome this and believe it is a sensible and practical step towards meeting the pressure from pensioners in particular for some relief. Details of the proposed package are annexed: I hope you can agree.

5 It is clear there will need to be further discussions with BT on this year's EFL. However, Sir George made it clear that he saw no need for additional finance this year, and that in particular there was no need for a bond issue this Autumn. While I am disappointed that BT will not have an early chance to test the market, I accept this. BT accept that any increase in their EFLs for 1983-84 and 1984-85 is extremely unlikely, and will be looking for ways - including among other things the Bond - to fill what they see as a financing gap.

6 British Telecom are anxious to put their proposed tariff package to POUNC in the next two weeks (when it will effectively become public) against the background of a financial target set by Government. I would be grateful therefore for comments on these proposals by 2 July.

7 I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Your ever  
R  
Patel



## BT'S PROPOSED TARIFF PACKAGE FOR NOVEMBER 1982

1 BT propose a package which will add 3.3% to average bills, with a 5.4% increase in average domestic bills and 1.6% increase in average business bills. Some of the main components of this are given below.

2 The basic domestic rental, currently £54 per year, will be raised to £60 (an 11% increase). The basic charge per unit will be raised from 4.3p to 4.5p (a 4.6% increase). For local calls the unit will retain its present duration, but for trunk calls it will be lengthened so as roughly to compensate for this increase.

3 Under the rebate scheme, small users will automatically receive a rebate amounting to 3p per unit for every unit less than 100 units per quarter used. Thus, at the extreme case someone who does not make any outgoing calls will receive an annual rebate of £12, reducing the £60 annual standing charge to £48. Thereafter the first 100 units per quarter will effectively cost 7.5p.

4 The increase in charges for individuals with a single telephone and different numbers of units used is set out below.

Number of units used per quarter	Percentage increase
nil	-11%
50	0.6%
100	9.5%
200	8.8%
1,000	6.1%

5 There is no increase proposed in call box charges.

28 JUN 1982

