

020
MR PASCALL

cc \ Mr Turnbull

NOTE OF MEETING, TUESDAY, 6 DECEMBER 1983

BRITISH TELECOM

File

Present: Colin Brown (Chairman's Office)
Douglas Perryman (Board Member for Finance)
Board Member for Corporate Planning
John Redwood

A wide-ranging discussion which included the acquisition of ICL, INMOS and privatisation prospects.

A. ICL

The attached paper gives the background on why ICL cannot supply all their needs, but suggests in paragraph 5 that ICL could still obtain £35 million of revenue per annum for the next 2 years from BT's equipment budget. They said that the source of the rumours concerning the bid for ICL came from Geoffrey Sterling at the DTI, and he was voicing the opinion that the Prime Minister would support this scheme.

B. INMOS

INMOS has been offered twice to BT, but they still do not think they have any interest at this juncture.

C. Privatisation

- (a) Balance-sheet gearing. The Treasury are suggesting a one-to-one debt equity ratio. BT have opened the bidding at 0.3:1.
- (b) Dividend payment. They are discussing dividend payments in the range of 125-150 per cent of the market equity yield. On a 6 per cent dividend yield (125 per cent) the net cost would be £430 million, and they believe this could be accommodated within the cash flow predictions they are making. They believe that even allowing for the payment of tax and the capital budget, they might be able to hold level gearing over the ensuing years, even with this level of distribution. This would be based on balance-sheet gearing at inception at their level rather than at the Treasury's level.
- (c) BT favour a US sale concurrently with the UK sale, and believe an early decision in principle should be taken before the end of


this calendar year, so that all the technical difficulties with the SEC can be surmounted in good time.

- (d) BT also favour a workable scheme of share sale to customers. Exploration still seems to be in its early stages. I mentioned the possibility of using either the Post Office or the National Savings Scheme to facilitate transfer between share purchasers, many of whom would not have a stockbroker. They are also investigating the type of loyalty bonus that should be used. There are legal and taxation difficulties in the way of setting up a BT Unit Trust for share purchasers.
- (e) RPI-X. The Treasury under Mr Christie is still pursuing the vexed question of long-run marginal cost. BT believe this is a will-o-the-wisp, and I agree with them. At some stage in the near future, a meeting has to take a decision about the value of X which should bear in mind the origins of the scheme. The intention was to provide a control in the period when competitive powers are not sufficient to act as a protection, particularly for the domestic customer. BT favour the choice of a narrow basket of services for the RPI-X formula, which concentrates on local calls for domestic users; but would then argue that X should be a relatively small number, as these will remain the high-cost services. They would accept a wider basket of services giving more scope for cross-subsidisation and a larger value of X.

It would seem to me important that an early decision is taken on the question of whether there is going to be a US sale. If so, bankers and brokers should be appointed in the States charged with the tasks of preparing the documentation for the SEC and pledging themselves to sell a certain proportion of the equity. Similarly, the British bankers and brokers should be appointed and nailed down as soon as possible on the rough terms of the sale in relation to dividend payments and stock market rating, and should come to a swift conclusion on the question of the offer for sale to the customer public.

BT dislike the Treasury's interest in producing a system for marketing BT's debt. They believe this would be problematic, given the relative size of BT's debt to the current debenture and loan stock

market; and also think it would be too much to absorb immediately after the equity issue. I would want to see more views on this subject before coming to a conclusion.

A handwritten signature in cursive script, appearing to read 'John Redwood', written in dark ink.

JOHN REDWOOD

Instruct Lowered Load

BT Paper re
Computer Requirements

1. INLAND REVENUE 2988

DPE received a briefing from ICL in October that suggested two dual 2988 machines would give a processor power of 7.6MIPS. During my attendance at a conference in Florence last month I met John Carroll of CSC who are handling the Inland Revenue contract. Over dinner, in the presence of a member of ICL management, he mentioned that they had had delivery of a 2988. At switch-on there had been a small fire caused by a short-circuit in one of the processor boards. Apart from this false start they had found that transferring their load from a 2966 to the 2988 they had obtained only a 20% improvement. After a lot of work this had increased to 40% and ICL had only reckoned they could reach a 50% improvement. After discussion today the position was still the same. The likely power of a dual 2988 was unlikely to be better than 2.5MIPS and therefore I deduce that two duals would represent something less than 5MIPS.

2. TWO DUALS v. ONE LARGE MACHINE

The main argument for one large machine is to demonstrate a proven system that can handle 900-1000 terminals with a transaction rate of 12-15 per second and giving an acceptable response. There is also a need for significant power to handle a large integrated database. We do not have full dual working of our 2966s and do not know when we will have available software to drive a double dual 2988 configuration.

3. SINGLE DATABASE

The prime reason for a single integrated database is to provide a fully effective front and back office system. This is because a single database provides:

- a. minimum software overheads and therefore best response
- b. better synchronisation with simplified recovery
- c. no redundancy
- d. design flexibility

This can be achieved provided that care is taken with the initial design. Change may be simpler than with a family of systems which would, in any case, be difficult to keep completely in step. The operation of such a database requires a large processor power.

4. COLOUR TERMINALS

Colour terminals are essential to give better identification of information, easier input, less confusion and strain and therefore a faster response by the human interfacing with it. It is simply a much friendlier terminal.

5. VALUE OF HARDWARE

Over the next two financial years we expect to spend approximately £70 million on central hardware and £70 million on terminal hardware. On the basis that we dual source all items, the best approach, this could mean £35 million of revenue for ICL in each

of the next two years. This takes no account of discounts,
hardware spares, software licences or maintenance charges.

5 December 1983