

25/10

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date

3 November 1988

Prime Minister
George Grieve and I agree
that this is a sensible idea which
should be allowed pending the more
general discussion of Counters'
privatisation. Content?

Yes - I agree
Rec 6
4/11

Dear Chief Secretary,

TV LICENSING ORGANISATION: NEW BUSINESS

You will recall that Kenneth Clarke wrote to you on 21 July proposing that he should allow the Post Office to extend its Counters business in a number of areas. The Prime Minister commented that any extension of Counters services should not result in unfair competition with the private sector and that it needed to be considered within the context of an overall plan for privatisation. You also expressed concern over the future size and form of the Counters network. I very much share these reservations. I therefore made it clear to Sir Bryan Nicholson that I could not consent to any formal extension of Counters' powers before we had had the opportunity to take a broader look at options for the future of the Post Office's businesses and except within the context of an agreed strategy for privatisation of Counters. I shall be including this in the paper which I hope to bring to E(A) shortly.

Sir Bryan Nicholson has, however, persuaded me that there is one limited area of Post Office activities where I should agree to some limited relaxation. He has convinced me this would not lead to unfair competition with the private sector and that, were I not to agree, the prospects that currently exist for early privatisation of the subsidiary concerned could not be realised.

EM1AAD

at Harp

The particular subsidiary is the TV Licensing Organisation (TVL). As its name suggests, its present work concerns the issue and enforcement of TV licences. TVL has 1,350 employees. With Sir Bryan's agreement it has been informally discussing proposals for diversification with potential private sector partners. One of the proposed new activities is the compilation and operation of a subscriber register for one, or more, of the new satellite broadcasting organisations. I understand that both TV Direct Limited (TVDL) and British Satellite Broadcasting (BSB) have expressed an interest in TVL carrying out subscription management work. Other areas of possible TVL involvement which have been raised include compiling and monitoring a national register of football supporters and a national mortgage register independent of the major lenders and financial institutions, designed to reduce the scope for mortgage fraud.

I have made clear to Sir Bryan that I am only prepared at this stage to countenance a possible extension of TVL's activities to satellite broadcasting work. I have also emphasised that there can be no question of my agreeing to TVL investing directly in these new activities itself but should only undertake new business for the private sector on a purely contractual basis. Within these limits, I believe there are strong reasons for allowing Sir Bryan to proceed.

First, TVL is a small, self-contained profit centre within the PO's corporate organisation. If its commercial future is assured, it would be an ideal candidate for early privatisation. If, however, its sole area of business is TV licence collection, issue and enforcement, its days would seem numbered to any potential private sector purchaser. Subject to your agreement that I should consent to the present proposal, I propose to ask Sir Bryan to provide details in the next Post Office Corporate Plan of a detailed strategy for TVL to be privatised by the end of 1990/91.

Secondly, as both Douglas Hurd and Tim Renton have pointed out to me, provided TVL was capable of diversifying without detriment to the effectiveness of TV licensing work, there would be benefits to both Government and the BBC. By allowing TVL to spread its overheads between TV Licensing and other contractual work, the costs of the licensing operation could be significantly reduced. I believe that TVL will be able to satisfy the Home Office that it will be able to maintain its present level of efficiency.

Finally, I believe that any risk of unfair competition between a TVL in the public sector, before privatisation, and the private sector would be minimal. If it undertook satellite broadcasting work, it would not use the equipment or the software developed for TV licensing purposes. It would merely exploit the expertise it has acquired in building up files of addresses. This expertise is, of course, already widely available in the private sector, eg through mail order firms. Moreover, as Douglas Hurd has pointed out to me, it would be unfortunate to impose unnecessary costs on the private sector if TVL can provide the best service at the best price; and particularly unfortunate in the case of the satellite broadcasting organisations given the high risk nature of the business and the substantial forward investment needed.

If we consent to diversification by TVL on a contractual basis, this does not in my view prejudice any future decision which we may wish to take on the proposed extension of activities by Post Office Counters Ltd. TVL is at present a 'one-product' organisation whose future is very clearly and directly linked with the future of TV licensing. The Home Office, I believe, recognises it to be an efficient organisation, and one which is potentially able to undertake other activities without detriment to its licensing work. TVL itself recognises that, with a wider range of activities, it would be well suited for transfer to the private sector, and would welcome that opportunity.

If you and colleagues agree that I should indicate to the Post Office that I am content for TVL to compete for subscription work for satellite broadcasting agencies on a contractual basis, I would propose to make an early announcement to this effect. Publication of the White Paper on Broadcasting next week will demonstrate our commitment to establishing a more competitive environment for broadcasting. An extension of TVL's contract work for satellite broadcasters could be presented as enabling it to adapt to, and benefit from, this new more competitive environment.

I am copying this letter to the Prime Minister, Douglas Hurd, members of E(NI) and Sir Robin Butler.

Yours sincerely,

Peter Smith

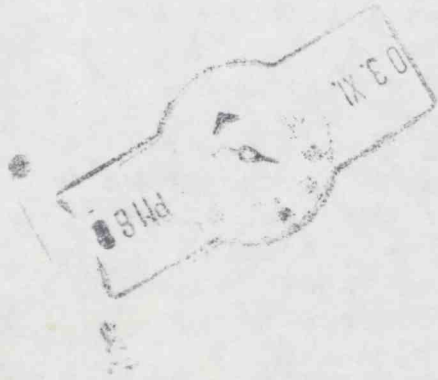
PP TONY NEWTON

(Approved by the Chancellor
and signed in his absence)

POST + TECS: Post

Office future

H U





QUEEN ANNE'S GATE LONDON SW1H 9AT

19 October 1988

Dear Nigel,

DBS CHANNELS 4 AND 5

Thank you for your letter of 17 October about my proposal that we should announce in the White Paper that the remaining two DBS channels would be allocated as soon as possible. *with PG?*

I am glad that you support this proposal. I am grateful for your suggestion that we might use this opportunity to give a further stimulus to subscription. In general we are in the White Paper leaving it to operators of commercial TV stations (including BSB) to choose for themselves the best mix between advertising and subscription, and I think this is right. But it is, I believe, open to the IBA to refuse to permit advertisements to be carried on one or both of these DBS channels. I assume that it is accordingly open to them to announce this fact at the time they advertise the contract. However, though I have not yet discussed the matter with the IBA, I anticipate that they will take the view that they could decide that this course was right only after considering the broadcasting scene in general, and the commercial television scene in particular. Obviously they will not be in a position to do that until our White Paper is published. Accordingly, if we want to administer a further nudge towards subscription the White Paper might say that we are interested in the possibility of using DBS Channels 4 and 5 to give a further stimulus to subscription and that we propose to discuss how this might be done with the IBA. If colleagues believe this to be the right approach I would be happy to agree to it.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Tom,
Dylin.

The Rt Hon Nigel Lawson, MP.