

Prime Minister



*of the Deputy
Chair - I think you
must go back to it!*

*Reluctantly agree,
subject to the
Chairman's views?*

PRIME MINISTER

POSTAL TARIFF INCREASES

*to tell him that if he were
in the market he would not only have to "accept" -
"recognise" certain things he would actually have to do to
cut costs to survive. We cannot have
price increases of this order. They must
cut costs.*

The Deputy Chairman of the Post Office is seeking approval to
put to the Post Office Users National Council a package of
postal tariff increases. The increases, which would be
effective from 5 January 1981, would amount to some 19 per cent
overall, and would include increases on the basic letter rate
of 2p for both first and second class. The package would add
less than 0.1% to the RPI (including the effect of costs being
passed on by business users). Postal tariffs were last increased
(by 2p/2p on basic rates) on 4 February this year.

2 Having discussed these proposals with Mr Dearing I reluctantly
accept that some increase is necessary in postal charges if
the postal business is to meet its contribution to the Corporation's
external financing limit for the current year, and indeed if it
is to come within striking distance of meeting its financial
target. Although savings have begun to emerge from the
experimental productivity scheme agreed earlier this year with
postal workers, the scope for these in the current year is not
great, and it is only in later years that they are expected to
build up to any significant extent. Nor does there appear to
be any further scope this year for significant asset disposals.

Why not?

3 Large though it may be, even the 2p/2p package represents
a calculated risk on the part of the Post Office. For whilst the
Deputy Chairman is reasonably confident that it will be enough
to meet the postal business's share of the Corporation EFL for

/the ...



the current year, it implies a shortfall on the financial target of some £17 million. Mr Dearing feels, nevertheless, that this is a risk which he must accept, and that to adopt what is essentially the lowest increase consistent with meeting this year's EFL could have a valuable psychological impact by imbuing a sense of further cost consciousness among Post Office management and could indeed strengthen their hand in negotiations with the unions (the next settlement is due on 1 April 1981).

4 I propose therefore to write to the Deputy Chairman setting out our grave concern that a further tariff increase - and one of this magnitude - has proved necessary within a year of the last, but stating that I would have no objection to the Post Office putting its proposals to the Users Council. I would make clear, however, that this was on the understanding that the postal business will be expected to meet both its external financing limit and financial target for the current year and 1981/82, that it should keep its financing requirements next year down to a level consistent with those envisaged in our discussion in E Committee on 17 September and that additionally it should so arrange its affairs as to avoid another increase before January 1982 at the earliest.

5 I have told Mr Dearing that I cannot accept a situation under which the Post Office is only able to meet its EFL and financial target at the expense of substantial and repeated price increases. I have asked him to let me know before

/Christmas ...



Christmas his strategy for ensuring that this situation does not continue. I have emphasised particularly the desirability of nil increases in unit labour costs. There are, however, many, sometimes conflicting, constraints imposed on the Post Office Board including their EFL, financial target (2% on turnover), the performance aim (holding prices steady in real terms), delivery targets and the need to avoid adverse effects on the Post Office finances (and hence the PSBR) from disruption of the mail service. Mr Dearing has also inherited negotiating machinery which commits him morally, if not in law, to accept the results of arbitration which can be demanded by the unions. He accepts that the Post Office has fallen well behind its performance aim and recognises the generally undesirable effects, and the damage to the long term future of the business, which a continuing increase in real unit costs could cause.

6 The preparations needed within the Post Office for a tariff increase, and the need to consult the Users Council, result in a lead time of some 3 months. In order to meet their target date and avoid delays (which would cost in the region of £5 million per week) the Post Office are anxious to present their proposals to the Council as quickly as possible. I would therefore be grateful for colleagues' comments as a matter of some urgency. I should mention that we have no formal powers under the Post Office Act to block price increases.

/7 ...



7 Copies of this minute go to Members of (E) Committee, the Secretary of State for Health and Social Services and to Sir Robert Armstrong.

KJ

K J

2 October 1980

Department of Industry
Ashdown House
123 Victoria Street