

PREM 19/333

Part 1

MT

Confidential File

Future of the Post Office, Finances.
Industrial Relations. Postal
Monopoly

POST AND
TELE COMMUNICATION

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
15.8.79		19.12.79					
20.8.79		28.12.79					
23.8.79		1.1.80					
28.8.79		7.2.80					
30.8.79		16.4.80					
12.9.79		27.6.80					
8.10.79		4.7.80					
10.10.79		ends					
22.10.79							
26.10.79							
29.10.79							
31.10.79							
7.11.79							
20.11.79							
26.11.79							
30.11.79							
6.12.79							
11.12.79							
12.12.79							
17.12.79							

PREM 19/333

PART 2I ends:-

8/5 Industry to CST 4-7-80

PART 2 begins:-

8/5 Trade to 8/5 Ind 7-7-80



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET 2
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

4 July 1980

Rt Hon John Biffen MP
The Chief Secretary to the
Treasury,
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1. N. Whitmore
2. P. Smith copies

Indicating, Sir Keith
is opposed to the
wide derogations from
the monopoly suggested
by Mr Biffen. You are
going to discuss with Sir Keith.

PS/Mins
PS/Secretary
Mr Croft
Mr Solomon PT

Recipients of Chief
Secretary's letter

MR Martin (Conf)

Dear Sir,

POSTAL MONOPOLY

Thank you for your letter of 2 July 1980.

I accept that the proposed derogations for specific categories of mail do not cover a very large proportion of the Post Office's traffic. They are, however, only part of a package and I think it essential to maintain the right balance between doing sufficient to be credible and not doing so much as to impair the ability of the Post Office to improve its productivity and to meet its financial objectives. The postal business has, by its very nature, a high proportion of fixed costs, and there is a clear relationship between productivity and volume. Similarly, given this high proportion of fixed costs, a drop in volume has a direct effect on financial performance. Already the Post Office has expressed concern at a 2.2% letter volume fall for May this year compared to May 1979, (after correcting for the effects of the telecommunications billing dispute) which, if continued through the year, would cause an adverse effect of £15m on the postal business profits and on the postal business's contribution to the Corporation's e.f.l. I am therefore anxious not to risk adding to the Post Office's financial problems. I am of course proposing to take powers to make further specific derogations of this kind, should future circumstances appear to warrant them.

2. I am reluctant at this stage to be too specific on the criteria for general derogations, either locally or nationally. Whilst the trigger for such derogations seems most likely to be quality of service I would be willing to widen the scope as you suggest by defining the criterion as the performance of the Post Office rather than merely a decline in the quality of service.

3. You mention also the related question of quality of service and performance objectives. This is a matter which is, as you



may be aware, being discussed by officials in the context of the follow-up to the MMC report, and I would like to set up a working party under D/Industry chairmanship to look with the Post Office at the questions of financial targets, productivity, quality of service and performance objectives. I intend in any event to ask my officials to examine with the Post Office whether its current quality of service standards are sufficiently rigorous, and this is something which could be taken under the auspices of such a working party.

4. I have taken note of the subsidiary points you have made about the definition of a letter and registration of private express couriers.

5. I am copying this letter to the Prime Minister and to other recipients of your's.

Gunn,

/Kear



17 JUL 1960





10 DOWNING STREET

Tupia R. 1/17

PM told Clive that she was "not too happy" and would discuss with KJ + JB at breakfast on Tuesday. I told their offices, and I told C.O. that PM was going to speak to them before responding.

MAP
4/VII.



Zps

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

2 July 1980

Dear Secretary of State

POSTAL MONOPOLY

Geoffrey Howe has asked me to comment on your minute to the Prime Minister of 20 June, which prefaced a draft statement about the future of the postal monopoly.

While applauding the steps you are taking to modify that monopoly, I wonder if they go far enough.

I am sure you will agree that it is most important that the threat of derogations should be made credible; as John Nott has reminded us by his decision on the Hong Kong air service. It must be a matter of judgement whether the immediate derogations you are proposing, which I understand amount to only 2% of postal volume, will be enough to get the message across that we are really in earnest. I recognise that to go too far down that road too fast risks impairing both postal profitability (which could threaten public expenditure) and union cooperation. But I hope you will seriously weigh whether the balance of advantage does not lie in extending somewhat the list of items for which the monopoly is to be relaxed forthwith.

In any case I wonder if the criteria you propose for triggering off future derogations are tough enough, in all the circumstances. (We are dealing with an industry whose industrial relations were recently described by one of its employees as "like when Red Robbo was at BL, only ten times worse", - which only says more graphically what the Monopolies and Mergers Commission told us in their recent report on the Inner London Letter Post.) Rather than link those criteria to specific industrial action or to a decline in the quality of service, should we not be saying that the derogations will take effect if an agreed programme to eliminate deplorable working practices is not achieved, or if quality of service and productivity are not improved to targeted levels? In this connection you know that the MMC report criticised our current performance aim (to stabilise real unit costs over the five years to 1982-83) as too lax given the serious decline in postal

productivity since the 1960s, and also argued for a second aim related to standards of customer service. Our officials are in discussion with the Post Office on these and other questions raised by the MMC report, and we shall soon need to take a view on them ourselves. I believe you have an early statement on that, too, in mind, and I look forward to an opportunity to comment on it.

I have two further points on your draft statement:

i. I can see that your move to clarify the definition of a letter - for the first time ever, I believe - will help to identify areas for future derogations, especially since I understand that the definition will be of an exclusive kind. But I am sure you will bear in mind that such definitions can often operate in a restrictive way.

ii. Is it really necessary to require private carriers entering the express courier field to register with your Department? Will this not mean that criticisms of the service they provide will tend to be directed at you?

The last point prompts a general reflection. These days public criticism of the postal service, thanks to the MMC report, is directed at the Post Office rather than the Government. We want to keep it that way - which suggests the need for regular occasions when the performance of the service is dissected publicly, as it has been this year.

I am sending copies of this minute to the Prime Minister and other recipients of yours.

Yours sincerely
R. Watts

PP JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

2-1111-1980



PRIME MINISTER

Postal Monopoly

At Flag A is a long minute from the Secretary of State for ^{20.6.80}Industry. In it, he rules out the total abolition of the postal monopoly. His reasons are:

I It would put at risk the continuation of recent improvements in productivity;

II The Post Office would be left having to provide a universal service which would have to be subsidised, while private operators would pick up the more profitable traffic;

III There has been no support for total abolition from those consulted during the recent review.

Instead, Sir Keith proposes:

I To keep the monopoly under continuous review;

II To take powers to make derogations from the monopoly in the event of the postal service ceasing or being severely disrupted as a result of industrial action, or - after due warning - if there is a decline in the quality of service; and

III To remove certain categories of mail immediately from the scope of the monopoly.

He proposes to make a Statement as soon as possible. (*Draft attached to his minute*).

Other Ministers who have commented are the Home Secretary ^{26.6.80} (Flag B) - he is content provided he is consulted before any further derogations are implemented; Mr. Younger (Flag C) who is content;

^{30.6.80}

/ and

2.7.80

and the Chief Secretary (Flag D) who argues that Sir Keith is perhaps not going quite far enough. Mr. Biffen argues in particular that more items of mail should be immediately removed from the scope of the monopoly (the immediate derogations proposed amount to only 2% of postal volume); and that the criteria proposed for triggering future derogations might be tougher - he suggests that derogations should take effect if an agreed productivity programme is not achieved.

It seems to me - and to the Policy Unit - that Sir Keith's proposals ^{and the draft statement} are on the right lines. If you agree, the only question is whether you wish to support the Chief Secretary and press for a slightly tougher line. If so, I could say that you would like Sir Keith to take up his suggestions. Alternatively, we could take a more neutral position and simply say that you hope that Sir Keith will consider the Chief Secretary's points carefully before reaching a final view.

The conditions attached to the derogation are much too narrow. Have made the point to KJ. R.

2 July 1980



*announcing the Dept's
commitment
to*

PRIME MINISTER

TELECOMMUNICATIONS MONOPOLY

Last September I announced the intended separation of the Post Office into two corporations responsible for Posts and Giro and Telecommunications respectively. The latter corporation will be called British Telecommunications (BT). At the same time, I said that we would be carrying out consultations with a view to early relaxation of the Post Office telecommunications monopoly in the field of attachments and telecommunications services using Post Office circuits.

2. These consultations are now completed and, subject to the agreement of colleagues, I should like to announce our detailed proposals in a Parliamentary Statement as soon as possible and certainly before the middle of July.

3. In general I propose a substantial liberalisation of the monopoly, with scope to make further progress as and when appropriate.

Freedom of Supply

4. In particular I have concluded that there should be free competition in the supply and installation of attachments subject to the following exceptions which are necessary to ensure that a basic and uninterrupted service is provided for



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1 - JUL 1980



all domestic and business users by British Telecommunications (BT):

- a) the first telephone provided with each direct exchange line and the associated wiring; and
- b) the maintenance (but not supply or installation) of private branch exchanges and associated wiring.

5. All attachments except for the prime instrument are to be freely allowed and discrimination between large and small PABXs is to be eliminated. Even so I appreciate that some would have preferred to see liberalisation go even further to include all attachments and wiring. I am, however, satisfied that this is as far as is feasible at the present time, bearing in mind all relevant considerations. The Post Office Engineering Union (POEU) is strongly opposed to certain aspects of the proposals, particularly in respect of business subscribers' wiring, but Adam Butler has explained our proposals to them and I think they may reluctantly accept the outcome, since rejection will not win them any public sympathy.

6. Technical approval of attachments of terminal equipment such as second phones, answering machines, printers, and facsimile machines is necessary to safeguard the integrity of the network and I propose that the British Standards Institution (BSI) should draw up the standards after discussion with interested parties, subject to Ministerial approval,



and carry out the requisite certification and quality assurance functions. This will ensure control by an independent body without creating a new regulatory organisation. The BSI's functions in this respect will be financially self-supporting except that it might need to look to the Department for initial financial support in the region of £50,000 to pay for staffing the new standards-making committee.

Development of New Services

7 I should like at the same time to have seen an early and thorough-going relaxation of the monopoly over use of the network for telecommunications services. However, the present structure of telecommunications tariffs results in the bulk of profits being made on long distance calls and a sudden change of regime might allow private operators to lease long distance circuits and to offer cheap telephone calls in competition with BT. The Post Office has estimated that such "creaming off" could reduce profits by over £100 million within five years. Compensation for this loss would require increasing the average residential bill by some 25%, with wide implications for users in general. I intend, therefore, to liberalise initially only services which provide additional facilities - genuine added value services, in the form of information, storage and processing - and not the mainly switching and transmission services provided by the network. The growth of added value services is likely to be very substantial and I

/shall ...



shall want to see how much further we can go towards full liberalisation in the light of an independent study of the economic implications. The study will be completed before the passage of legislation.

The role of British Telecommunications

8 BT will continue to have an important role to play. It will be empowered to compete with the private sector across the full range of liberalised activities. In order to maintain the size and effectiveness of its business in this new competitive climate BT will have to make use of its existing expertise - and its professional skills are widely respected - to play a leading part in stimulating developments in information technology and the use of the network. It will, however, be essential to ensure that such competition is fair and that there is no cross-subsidisation from BT's monopoly activities. For this purpose adequate arm's length financial arrangements will be necessary and, despite opposition from Sir William Barlow, I intend to take powers to require BT both to set up a separately accounting subsidiary or subsidiaries to deal with its competitive activities and to dispose of shares in them. This will also facilitate regionalisation if we so desire. Further to ensure that BT is competing fairly, the Director General of Fair Trading will be in a position to take appropriate action under the existing Competition and Fair Trading Acts.

Licensing

9 In order to implement these changes I propose to seek
/general ...



5.

general powers to license any activity falling within the scope of BT's monopoly, subject to such conditions as the Secretary of State may think fit. This will also give Ministers the necessary flexibility to make appropriate changes in the scope of the monopoly in future. It will be highly contentious, but may help to condition attitudes within BT.

Effects of the Changes

10. The effects of these changes will be far reaching. Although domestic subscribers, for the time being at least, will still have to look to BT for the installation and maintenance of their basic telephone service, they will be able to purchase an expanding range of extension telephones and other terminal equipment from private suppliers and to choose who maintains them. Business users will gain to an even greater extent from competition in the supply of all types of business attachments and the installation of subscriber wiring, which is at present an irritating and persistent cause of delay in the provision of telecommunications services to business, particularly in the City. A wider range of information and data processing services, particularly for business, should also become available as enterprising operators make use of the new opportunities to contribute to the development of the electronic office.

11. For our telecommunications industry and for the associated



6.

service companies the changes will introduce a breath of fresh air, widening the market directly available to them, even though competition will be increased. The conditions will be created for the growth of new firms and even new industries in this rapidly expanding field. The manufacturers, in addition to having an incentive to develop advanced products for the home market, will no longer be constrained to design their products with the requirements of the British Post Office in mind and will be free to take full account of the needs of export markets. Wide opportunities for the providers of new information processing services will be opened out.

12. Too sudden a move, however, to an open market would lead to a dangerous influx of imports. I have, therefore, decided to phase the introduction of competition over a three year period to allow British industry time to adjust to the new trading situation and to develop new products in the areas in which it is weak. I also intend in advance of liberalising specific product groups to seek reciprocal trading opportunities from countries that do not already provide them. Discussions are already in progress in Brussels to achieve the first steps towards this objective under the Davignon initiative on telematics in the EEC. Similar discussions will be necessary in relation to other countries with competitive telecommunications industries such as Japan, USA, Canada and Sweden. But we shall need to be sure that any agreements we make are effectively implemented by the countries concerned.



7.

13. I am confident that the new arrangements will stimulate an improvement in the level of service provided by BT and a more market-orientated attitude throughout the Corporation. Indeed, there are signs that this is already happening. BT will stand to lose some market share of attachments. If the US precedent is anything to go by this should be a long-drawn out process, and the financial effects are not likely to be very significant and have been already taken into account in the Post Office's current forward plans. Employment in the Post Office in the areas immediately affected will be trimmed and some redeployment of staff will be necessary, but on a timescale that management should be well capable of handling. Overall, job opportunities in telecommunications activities should increase.

14. Similar developments in the US, which date from the Carterphone decision in 1968, are now regarded as an unqualified success. Once the initial problems of transition have been overcome the same could and should be true in the UK.

15. I would be grateful for your agreement to proceed on the lines proposed. I shall be circulating later a draft statement.

16. I am sending copies of this minute to other members of the Cabinet, the Minister for Transport, the Chief Whip and to Sir Robert Armstrong.

LJ.

KJ

Department of Industry
Ashdown House
123 Victoria Street, LONDON SW1E 3RB

1 July 1980

With Compliments of the

Secretary of State

Scottish Office
New St Andrew's House
Edinburgh EH1 3SX



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

30 June 1980

Dear Keith,

POSTAL MONOPOLY

Thank you for copying to me your minute of 20 June setting out your proposals for modifications to the Post Office's monopoly in the carriage of mail following your review of the service.

I am minuting simply to confirm that I am content with what is proposed and with the terms of the proposed draft statement. It is encouraging that the Post Office have improved their performance recently and I am sure that these measures will be of value in safeguarding the interest of the customer.

I am copying this minute to the Prime Minister, Cabinet colleagues, the Minister of Transport and to Sir Robert Armstrong.

*Yours ever,
Cuneyt.*

Post + Teleco

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

✓ MAP.

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

27 June 1980

Keith

POSTAL MONOPOLY

Thank you for your minute of 20th June. I have no objection to your proposed announcement about the Post Office's monopoly for the carriage of letters.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Minister of Transport and Sir Robert Armstrong.

[Signature]

PETER WALKER



55

The Hon. Secretary of State for Industry
4 Abchurch Lane
157 Victoria Street
London WC2E 9BT

27 June 1980



27 JUN 1980

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SECRETARY OF STATE FOR INDUSTRY

POSTAL MONOPOLY

Thank you for sending me a copy of your minute to the Prime Minister of 20 June.

As you know, I have a special interest in the postal service and my officials have been discussing with yours and the other parties concerned the effect of your proposals in this area. The limited derogations from the monopoly which you propose would have some adverse effect on the special services at present provided by the Post Office but this would not be sufficiently serious for me to wish to object to your plans on this account. Any wider derogation could, however, have much more serious consequences; and if at any time you judge that further derogations are desirable, either at national or local level, I should be grateful if you would let me know so that the impact on my interests can be fully assessed before any decision is taken. On this basis I am content with your proposed statement.

I am copying this minute to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for Scotland and the Secretary of the Cabinet.

BSID

26

June 1980

CONFIDENTIAL

27 JUN 1980

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✓ M. D. D. D.
PRIME MINISTER

POSTAL MONOPOLY

- 1 You will recall that on 2 July 1979, I told the House that unless co-operation to improve the quality of the postal service was manifest it would be necessary to review the Post Office's monopoly for the carriage of letters, and that I would be calling for reports on possible modifications to the monopoly, their practicability and implications, by the end of that year.
- 2 I have received a report from the Chairman of the Post Office and a report from officials in the Department, who consulted widely with persons and organisations throughout the United Kingdom with an interest in the postal services. In addition the Monopolies and Mergers Commission has reported on the Inner London Letter Post. The Chairman of the Post Office, in his letter to me covering the Post Office's report on the monopoly, requested that the Post Office should be given time to put its house in order through the two year postal action plan, and that in the meantime no derogations from the monopoly be made.
- 3 One of the main reasons for reviewing the postal monopoly was the widespread dissatisfaction about the quality of service being offered to the customer. During the review I have received figures each month on the quality of service. It is encouraging that for the last two months for which figures are
/available ...



available, March and April of this year, the quality of service was very much better than it was in the worst days of last summer, and better than in the previous few months. I understand that this improvement has continued into May, although official figures are not yet available, and the quality of service is now close to the Post Office's own targets. There are, moreover, other encouraging signs in that the Union of Communications Workers (formerly the Union of Post Office Workers) has now agreed to enter into discussions at local level on measures to increase productivity and to eliminate restrictive practices. It is too early to say what the outcome of these discussions will be, but I think the position is more hopeful than it has been for some time. The reasons for this improvement have, I believe, included the reference to the Monopolies and Mergers Commission and our decision to review the Post Office monopoly.

- 4 I considered the possibility of taking the simplest course, which would be to abolish the monopoly entirely, and to let anyone who wished carry the mail. I do not propose to adopt this course, partly because of the wish not to put at risk the consolidation of, and further progress on, the improvements referred to in the previous paragraph, and partly because, even were the monopoly completely abolished, it is evident from our consultations that the Post Office would still be needed to carry the bulk of the country's mail, particularly person-to-person communications. Some private operators might establish themselves, but they would naturally only be prepared to carry the more profitable traffic, leaving the



Post Office to provide a universal postal service which might well have to be subsidised. Moreover, those consulted during the review, including a wide range of postal users, gave virtually no support for any substantial derogation from the monopoly. The general view was that the first priority should be for the Post Office to put its own house in order. The report of the Monopolies and Mergers Commission, which dealt with the area of the country where postal productivity was at its lowest, did not see extensive derogations from the monopoly as a solution.

- 5 It is possible that, once the market became open to all, services would evolve that would more and more effectively compete with the Post Office, but there is little evidence that this would happen fast enough or widely enough to make the risk worthwhile.
- 6 A more fruitful approach, which would be more acceptable particularly to large users of the postal service and to those in the more remote and rural areas of the country, would be to keep the monopoly under continuous review and to take powers to make derogations, thus demonstrating publicly that we regard the Post Office monopoly as a privilege and not as a right. I believe that the continuing knowledge that the monopoly was under review will enable the Post Office management to build on the advances already made and will help stimulate greater efficiency. I therefore intend to take powers to make derogations from the monopoly, both nationally and in local areas. I have it in mind to use these powers should the service cease, or



be severely disrupted, as a result of industrial action in the Post Office. I would also propose to make derogations, after due warning, when there was a decline in the quality of service in any particular area, large or small, attributable to circumstances within the Post Office's control. The Post Office would retain the monopoly for services into and out of the named area. It is important that the threat of derogations should be credible. I believe that it would be possible to organise a credible alternative service in the numbered postal districts in London.

7 There are also several categories of mail which both the Department and the Monopolies and Mergers Commission have shown to be suitable candidates for immediate removal from the scope of the monopoly. Details are set out in the attached draft announcement. I also intend to clarify the definition of a letter, since the absence of a clear legal definition has given rise to much uncertainty on the part of those both wishing to provide, and use, services at the margins of the Post Office's exclusive privilege.

8 I considered whether I should require private operators to obtain licences to carry mail. This might help to protect the customer and would compensate the Post Office through the licence fee for the loss of revenue from the traffic taken by competitors. However, except in the case of bulk transfer of letters between



document exchanges I have decided against licensing. Where the customer has the option of using the Post Office, I think it reasonable to expect him to bear the risk if he chooses a private alternative. Moreover, a system of specific licences would inevitably bring with it the need for policing, with all the attendant increase in bureaucracy and need for additional manpower. I propose that bulk transfer between document exchanges should be permitted under a general licence which would lay down conditions intended to prevent abuses. I would not, however, propose to introduce even a general licence for private carriers entering the express courier field although I intend to require such firms to register with my Department so that I will be aware of the extent to which private operators have entered the market.

- 9 Subject to your agreement and that of those to whom I am copying this minute, I would intend to make a statement in terms of the attached Annex as soon as possible, and certainly before the middle of July.
- 10 I am copying this minute to Cabinet colleagues, to the Minister of Transport and Sir Robert Armstrong.

KJ

K J

20 June 1980

Department of Industry
Ashdown House
123 Victoria Street



DRAFT ANNOUNCEMENT ON THE POSTAL MONOPOLY

With permission, Mr Speaker, I should like to make a statement about the postal monopoly.

The House will recall that on 2 July 1979 I stated that if co-operation to improve postal services were not manifest it would be necessary to review the Post Office's monopoly for the carriage of letters, and that I would be calling for reports of possible modifications to that monopoly, their practicability and implications, by the end of the year.

I have received a report from the Chairman of the Post Office and a report from officials in the Department who consulted widely with persons and organisations throughout the United Kingdom with an interest in the postal service. In addition My Rt Hon Friend the Secretary of State for Trade referred the Inner London Letter Post to the Monopolies and Mergers Commission: the Commission's report was published on 1 April.

Members of the House will be aware of the widespread criticism of the postal service, particularly in the summer of 1979. I am glad to say that recently the quality of service to the customer as measured by the statistics furnished by the Post Office has shown a marked improvement, particularly in April and May this year. The service is now close to the Post Office's own targets. It has moreover been encouraging to hear of the decision of the Union of Communications Workers to discuss with the Post Office measures to improve productivity and to bring about more efficient working.

/It ...



It has for some time been clear that the monopoly is more extensive than is sensible and that there are uncertainties in some of the key definitions. Taking into account these factors and the views expressed by those whom we consulted in the course of our review, the Post Office's own report on the monopoly, the views expressed by the Monopolies and Mergers Commission, and the quality of service now being received by the customer, I have decided that some measures are desirable. There are certain categories of mail which it would be beneficial to remove from the monopoly. When the necessary legislation has been enacted I intend to relax the monopoly with respect to:

a Time sensitive/valuable mail. Private operators will be free to carry such mail provided they charge a minimum fee of ~~to be decided~~ ^{by who -} ~~.....~~ In addition private operators will be required to register. No license system is proposed for this service.

b Document Exchanges. At present the document exchanges established in a number of the larger cities are able only to operate an exchange of mail at a common centre, and may not transport mail in bulk between those centres. It is intended to amend the law so as to enable them to do this.

/c ...



Why?
c Christmas Cards. The Government proposes to amend the law so as to allow charitable organisations to deliver Christmas Cards, provided they do so for half or less the second class postage rate, and that the proceeds of the delivery go to charity.

In addition the Government proposes to amend the law relating to the monopoly in a number of other fields:-

i The Definition of a Letter. It is intended with the help of the Post Office to clarify the definition of a letter in order to do away with the confusion which currently exists.

ii Part Carriage by Private Operators. It is intended to amend the law to allow that where a letter at some stage goes through the Post Office network it may be carried for part of its journey by private carriers provided that it is first stamped. This will enable the large customer some freedom to avoid his mail being handled in those parts of the Post Office network known to give rise to delays.

iii Delivery by Wholly Owned Subsidiary. At present it is permissible to deliver mail on one's own account, but it appears that a wholly owned subsidiary cannot deliver mail on behalf of its parent, or of other companies in the same group. It is intended to amend the law to rectify this anomaly.

iv Addressed Advertising and other new market demands. The Government will watch how the Post Office reacts to such /market ...



market demands and will, if justified, make appropriate derogations from the monopoly.

Finally, the Government will seek to amend the law relating to the Post Office letter monopoly in order to provide powers for the Secretary of State to make derogations in respect of certain categories of mail to remove the monopoly either in a local area or nationally both in the event of industrial action within the Post Office resulting in a cessation or serious decline in the quality of service and, after due warning, in the event of the quality of service declining for other reasons within the control of the Post Office.

Taken together these measures clarify the law, open up to competition some parts of the postal monopoly where it has been represented to me that alternative services would be of benefit to the customer, and safeguard the general interest of the customer by making it clear that the letter monopoly is a privilege which the Post Office needs continually to justify through the quality of the service it provides. I have in addition initiated a review of whether the Post Office's targets for first and second class mail are sufficiently rigorous. I have discussed these changes with the Post Office and believe the measures will stimulate greater efficiency within the postal service.

I will lay before Parliament the changes in legislation necessary to implement these measures.



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SCIENTIFIC DOCUMENTATION CENTRE LTD.

Director of Research, P. S. Davison, Ph.D., B.Sc., A.R.I.C., M.I.Inf.Sc.

HALBEATH HOUSE,
DUNFERMLINE, FIFE, KY12 0TZ,
UNITED KINGDOM.



Telephone: Dunfermline 23535

Reference: PSD/EMM

9th June, 1980.

x 12

Michael Pattison, Esq.,
Private Secretary,
Office of Prime Minister,
10, Downing Street,
London.

Dear Mr. Pattison,

Please find attached a copy of suggested questions which I have submitted to Dick Douglas, though I do not know whether he will ask them or not.

This identifies a number of areas of public expenditure on computerisation of science information which we were not able to cover in our report. The answers should identify further substantial public expenditures on computerisation of science information.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'P. S. Davison', written over a horizontal line.

P. S. DAVISON.

SUBJECTS FOR QUESTIONS TO IDENTIFY EXPENDITURES ON
COMPUTERISED INFORMATION SERVICES

1. Info-line Ltd.
What is the total amount of money from public funds to date given or loaned to Info-line Ltd? When have the loans to be repaid and have any been repaid so far?
2. D.O.E.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the Dept. of Environment? It would be helpful if the sums of money could be divided into the headings in brackets, in this and the following similar questions.
3. D.I.
What is the total amount of money from public funds spent on computerised information services to date (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the Dept. of Industry?
4. M.A.F.F.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the Ministry of Agriculture.
5. D.E.S.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the Dept.
6. M.O.D.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British library: others) by the Ministry of Defence.
7. Civil Service Dept.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: ~~Lockheed~~ Missile & Space Co.; Systems Development Corporation: others) by the Civil Service Dept.
8. A.R.C.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others;) by the Agricultural Res. Council?
9. M.R.C.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others;) by the Medical Res. Council?
10. N.E.R.C.
What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others)

11. S.R.C.

What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the Science Research Council?

12. S.S.R.C.

What is the total amount of money from public funds spent on computerised information services (in house: UKCIC: Inspec: Biosis: CAB: Compendex: British Library: others) by the

13. University Grants Committee

What is the total amount of money from public funds spent on computerised information services (in house: UKCIS: Inspec: Biosis: CAB: Compendex: British Library: others) by the University Grants Committee?

14. D.V.L.C.

What is the total cost to date of Swansea DVLC?

15. Specialised Information Centres

OSTI set up a series of Specialised Information Centres supported heavily from public funds. How much money from public funds has been spent with each and which are still running? It would be helpful if the answer could indicate the amounts in each separate financial year.

16. One of these is for x-ray analytical data run by Dr. Olga Kennard at the University of Cambridge. According to the British Library's RBUPC (Vol.1, Phys. Sc., page 74) this centre has grants from Medical Research Council and Science Research Council from 1948 - 1999. We understand they also receive funds through DES from OSTI/BLR&DD. Could you please find:-

- a) Is it Government policy to allow departments to commit grant funding for periods such as 50 years? We seem to have seen correspondence from senior officials in OSTI/DSIR that grants could only cover a short number of years.
- b) D.R.S. What is the total already spent from public funds on this Cambridge Unit and committed to 1999 to this Unit by D.R.S., and
- c) by M.R.C.,
- d) by S.R.C.,
- e) by A.R.C., and
- f) other Government funding departments?

17. M.S.D.C.

We know from the Dept. of Industry that up to 1976/77 that Dept. spent £164,451 on the Mass Spectrometry Data Centre. Could you please give us the figures from 1977 to date? Has the centre issued any further data sheets? Does the MSDC receive funds from any other departments other than from the sale of its published bulletin?

18. British Library

The last British Library Annual Report only indicates part of the Government Grant in Aid to B.L. What is the total Grant in Aid to B.L. for 1978/79?

19. Chemical Society/UKCIS

We understand that the Chemical Society or UKCIS has received from the Office for Scientific and Technological Information, or its successor, by which we understand is meant the British Library R&D Dept., the sum of £509,600 up to 1975/76. What is the amount paid to the Chemical Society or UKCIS from these departments since 1976 and to date? Has the Chemical Society or UKCIS received any payments from the British Library Bibliographic Services Division or from British Library Management and Central Administration Division or from other British Library Divisions and if so, how much?

20. Prestel

What is the total expenditure spent on or committed to Prestel each year to date?

21. Prestel

How long has the Post Office Prestel System been being developed?

22. Prestel

What is the total number of subscribers to Prestel at present?

23. British Library

CONFIDENTIAL

We showed in 1976 that 61% of OSTI/BLR&DD funds had been awarded to organisations associated with members or assessors on the committee at the head of the funding department. To produce this most disturbing evidence required a great deal of painstaking unpaid research on our behalf.

At a future date I believe it might be desirable to ask what amount or proportion of BLR&DD funds in the period 1970-1975 and 1975-1980 was awarded to organisations associated with members of the BL Board or the Committee advising its Research and Development Department.

I wondered if you could ask a question which concerns me about this project under Parliamentary Privilege.

BL News 46, October, 1979, (copy attached) shows Bruce Coward as Managing Director of Clive Bingley/K.G.Saur, the firm receiving this contract. A copy attached of a page of the BL Annual Report shows a Mr. R.E. Coward as Director General, Bibliographic Services Division of the BL Board. The name Coward is not particularly common, only one in ten thousand in the London Telephone Directory bearing that name. The probability of two unrelated people having that name, and:-

- 1) both being Directors, one on the Board of a public body (British Library), and the other of a private company, Clive Bingley/K.G.Saur, and,
- 2) both being in the library or publishing field,

must be extremely tiny.

How did the firm Clive Bingley/K.G.Saur obtain this presumably substantial public contract? What is the amount already spent on this contract and what is the total amount?

SCIENTIFIC DOCUMENTATION CENTRE LTD.

Director of Research, P. S. Davison, Ph.D., B.Sc., A.R.I.C., M.I.Inf.Sc.

HALBEATH HOUSE,
DUNFERMLINE, FIFE, KY12 0TZ,
UNITED KINGDOM.



Telephone: Dunfermline 23535.

Reference:

14th May, 1980.

Mr. Richard Ryder,
The Private Office of the Prime Minister,
House of Commons,
Westminster,
LONDON SW1 0AA.

Dear Mr. Ryder,

Teddy Taylor has suggested to me that if I particularly wanted a matter brought into the hands of the Prime Minister, I should send it direct to you asking for help.

I would ask that the attached letter and report be put into her hands because of the large national resources potentially involved both for British Library information services and buildings, and because she has been directly involved before in the matter, and therefore is aware of it's important political overtones.

The covering letter to Mrs. Thatcher aims to draw out the points needing her action. The carefully prepared report makes the case in some detail and very full Annexes are attached to simplify the task of staff checking the documents by presenting all the supporting factual evidence in one cover. The documents are systematically cross-referenced: "Annexes" and "paras" refer to the numbering in the Annex and Report volumes respectively.

To introduce myself, I have worked in information retrieval for twenty years producing information services for research laboratories, and should know my subject by now. I have attached a copy of Euro Abstracts, which announces all the research carried out by, or funded by, the European Commission, which I edit for the Commission, and the attached page indicates our staffing.

I also stood for the Conservatives at Hamilton in the General Election.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "P.S. Davison". The signature is written in a cursive style with a long horizontal flourish at the end.

P.S. Davison.

SCIENTIFIC DOCUMENTATION CENTRE LTD.

Director of Research, P. S. Davison, Ph.D., B.Sc., A.R.I.C., M.I.Inf.Sc.



HALBEATH HOUSE,
DUNFERMLINE, FIFE, KY12 0TZ,
UNITED KINGDOM.

Telephone: Dunfermline 23535.

Reference:

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
House of Commons,
LONDON, SW1 0AA

14th May, 1980

Dear Mrs Thatcher,

THE PROBLEM: an Eventual £1 to £2 Billion Speculative System: Why and for Whose Benefit?

The attached report on massive on-going public spending on computerised information services (described by one of their chief officials as "...less effective than any other...") gives evidence that these will cost Government between £1,000,000,000 and £2,000,000,000 eventually. It questions whether at present there is any scientifically valid evidence that they will be better than what they would replace, and why we are moving to spend these vast sums. It puts this in the context of another computerised word processing macrosystem which, also after 20 years of research, is still apparently less effective than what it would replace. Newly published information is given on computerised information services (Oxford Evaluation results etc., Annexes A & O) on machine translation (Annexes K, and F, Sect III, ps. 5-8). New evidence shows the likelihood of long term loss making by the Post Office's Prestel (Annex J) and looks at rapidly rising costs of the British Library (Annex D). By the expected time of the next General Election, extrapolated annual subsidy to the BL is likely to have reached the present annual pound cost of Swansea! New evidence exposes as incorrect five key statements supporting sale of computer word macrosystems. Unfortunately, we have to report yet again levels of institutional interest between grant funding and grant receiving bodies which would not be tolerated in other areas of public life (paras 55-60), and there is disturbing evidence that refereeing is not impartial (para 58).

BACKGROUND: Earlier Actions by Secretary of State now in Effect Reversed.

In 1970 and 1972 (Annex C-1) I drew your attention to fears that the Civil Service's Office for Scientific and Technical Information (OSTI, now the British Library R & D Dept. (BLR & DD)) was using heavy public subsidy to establish major state controlled computerised information services for science and technology which would be vulnerable to abuse by a Benn type left wing Government - Britain's potential VINITI. Subsidies to do this then ran to £hundreds per user; they now run to £thousands per user; subsidies far exceed cost to the user. You closed OSTI's Manchester Data Processing Centre and later OSTI, unfortunately, the chief officers and influences were not removed. Since, mainly under Labour, the same potential for state influenced information services has now come back in a different form - BL and the Post Office - affecting business information now as well as science and technology. The magnitude of the substantial public expenditure hitherto has been recognised by few other than ourselves, but now an EEC paper supports our many-year-old estimates of a £billion bill and the misleading (official?) £5 to £10 million price for computerising information services for science and technology is proved to be false.

RECOMMENDATIONS: Reducing State Control of Information.

A lifetime's experience in information retrieval summarised in the Report gives carefully considered recommendations: many refer to BL and include removal of politically sensitive fringe functions to delay its need for new buildings, and removal of its grant funding function to remove improper influence. Our recommendation that these computerised services should be viable and unsubsidised would save very large sums of public money. Several recommendations request tighter accounting procedures to make it more difficult to conceal subsidy and easier to find the true high cost of many computer systems, so that we would be less easily misled into prestigious but over expensive and ineffective high technology. We ask for evidence of benefit before spending. Taken together our recommendations would greatly weaken the network of power which the Left could exploit to set up a British VINITI, making it more difficult to infringe individual and industrial privacy. These are the political advantages to Government. To make it easier to tackle these detailed and complexly interrelated matters, our main recommendation is to ask your support for the establishment of a committee(s) outside the 'Establishment'.

CONFIDENTIAL

Background note on Dr. P.S. Davison

Dr. Davison has been writing letters on this topic to various ministers and senior officials for nearly 20 years. Initially he sought a grant for scientific research from what is now the Science Research Council. He was unsuccessful. In the early 1960s, after inheriting the family farm, he formed a company, Scientific Documentation Centre Ltd, to run a service announcing new literature to scientists and others. He has attempted to cover a wide range of knowledge and in doing so has duplicated a large number of existing, more specialised services. Use of the service is very low and, but for the fact that he uses voluntary labour and pays himself only a pittance as part-time director, he would be losing a lot of money.

Right from the start Dr. Davison took the view that the Government should support this enterprise, his own resources being small. He would not approach normal sources of capital, notably the Government-sponsored Industrial and Commercial Finance Corporation; but he insisted on securing money from research-support sources, as he claimed that what he was doing constituted research. For several years he described the Centre as a research association and was invited by the former Department of Scientific and Industrial Research to apply for support under the government research-associations scheme, which DSIR then administered. However, he never completed his application. DSIR, to encourage him, did recognise the Centre as a research association for purposes of tax relief on members' subscriptions. A few years later, the Ministry of Technology, which took over DSIR's responsibilities withdrew its recognition because it saw little evidence of research being done.

By this time support was available for information research from the Office for Scientific and Technical Information in DES, now the British Library Research and Development Department. Dr. Davison sought systematically to obtain funds from OSTI; but none of his proposals won support from independent referees, partly because they were not well thought out but mainly because they were not research, in the generally accepted sense of the word. They were in fact related to the development of SDCs own services and would be of little or no benefit to other organisations. Dr. Davison reacted to these failures by writing an unending series of letters to ministers, senior officials and MPs and also by persuading various MPs to write letters on his behalf. This has been going on for about 15 years and, although there has been some development in his thinking, his basic points remain the same:

- a) The referees chosen by OSTI/BL are not competent and impartial, and the system of refereeing should be overhauled. This point has been dealt with in many replies and also (in 1976) by the Select Committee on Science and Technology which received evidence from Dr. Davison and asked the British Library to reply on this topic only. It then said in its report "we totally reject the more extreme proposals put to us by some disappointed applicants for the abandonment of peer-review in favour of "representative" grant awarding bodies". In a footnote it added "A very extreme proposal of this kind is put forward by Dr. P.S. Davison in respect of the British Library Research and Development Department."

- b) By supporting experiments with computer-based information systems OSTI/BL have subsidised competitors of SDC, using techniques which he believes to be inferior to the traditional, so-called "manual", techniques used by SDC. This is not a valid criticism

and over the years ministers and officials in the Department of Education and Science have carefully and repeatedly explained the purposes of such research, but without success. During 1970-75 Dr. Davison conducted much of his pleading through the then Member for Dumfermline Borough, and the Chairman of the British Library Board, supported by the Minister, invited the Member and Dr. Davison to discuss the complaints at length. Dr. Davison advised the Member not to accept the invitation unless the Director of the British Library R & D Department was excluded from the meeting, and nothing happened.

- c) OSTI and BL have concentrated a large proportion of their resources on a limited number of organisations, including organisations "represented" on their advisory committees which, he insists, has been "at the head of" OSTI and BL, though in fact they have been only advisory. This complaint has not been replied to for a special reason. It is based on a so-called research project, and the detailed findings contain many inaccuracies and misinterpretations. But they appear in only one document which, the Treasury Solicitor advises, is libellous and should not be used in any way that could be judged to condone the libel. Dr. Davison submitted this document to the Select Committee on Expenditure, but the Committee sent it back, refusing to accept it as publishable evidence, and did not ask the British Library to reply to the summary of the findings, which were published. One cannot deal with Dr. Davison's complaint without calling for the evidence and one is unlikely to receive the evidence without the alleged libel.

The various ministerial and official replies have made it increasingly clear to Dr. Davison that, whether he likes it or not, computer-based information services have come to stay and that the development of UK services, as an alternative to becoming reliant on foreign services, is a matter of concern to the Government, especially in its handling of EEC affairs. This has caused Dr. Davison to switch the emphasis of his criticisms from research to operations, and the material he has submitted to the Prime Minister shows evidence of this. But he has already supplied much of this material to his former MP for an adjournment debate in August, 1978. The report of this debate is attached; there is not a great deal that one can add to it, except by way of detail.

There is danger in dwelling on detail when replying to Dr. Davison. Admittedly, he almost demands such treatment because he carefully selects material that he thinks will support his case and ignores the rest. For example, he continually refers to the high costs of the computerised Motor-Vehicles Licensing Centre in Swansea knowing that this is anything but a typical case and that one should not generalise from its costs. Again he quotes repeatedly a published sentence by Dr. A.K. Kent (Chemical Society) suggesting that, as a recipient of funds for computer-based research, Dr. Kent is now against computer-based services. In fact Dr. Kent was writing only against "on-line" services, his own efforts being concerned with "off-line" or "batch-processing" services.

Experience has made us wary of dealing in detail with such points. At best one's replies merely provoke further letters since, as the annual reports of SDC show, one of Dr. Davison's main concerns is to keep the struggle going. At worst, he takes the replies to his solicitor to see if there is libel in them. The BL has salutary experience of

such behaviour and, before sending Dr. Davison any letter of substance, it has the draft vetted by the Treasury Solicitor.

Though he has widened the arena of battle, Dr. Davison's basic complaint is the lack of funds for SDC. Despite the continuing low use of its services he believes that the Government should provide funds for them and he has given hints in the past (i.e. at much lower price levels) that he would eventually require £250,000 for the development and launching stages. He still wants the initial support to come from research funds, though at present he is submitting no proposals to the BL. A couple of years ago he complained to a Scottish member of the British Library Board about his lack of success with the R & D Department. The Board member offered to submit his proposals to the Board for a second opinion, provided that he set out clearly what he wanted to do, and why. Dr. Davison sent in a contentious document, grinding several of his well known axes. The Board member said that this was not suitable and repeated his initial offer. Since then nothing has happened.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard,
12 December 1979, columns 1303 - 1312
"Post Office Board (Industrial Democracy)"

2. House of Commons Hansard,
16 April 1980, columns 1206 - 1213
"Post Office (Chairman)"

Signed Wayland Date 27 July 2010

PREM Records Team

PRIME MINISTER

B/Kendrick
for Hansard

Post + Telecom.

2

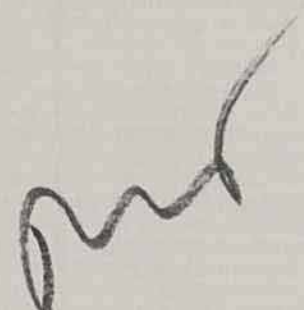
Keith Joseph's statement on the Post Office

Keith Joseph's statement (copy attached) went off peacefully this afternoon. He was consistently very generous to Sir William Barlow and this took the sting out of any criticism the Opposition might have had. Keith Joseph denied allegations by John Silkin that there had been a long series of disagreements with Barlow over the size of the investment programme, the cash limits and the ending of ~~the~~ monopoly and break up of the Post Office.

Mr. Silkin called the cash limits "rigid and unimaginative". Keith Joseph said that there would be no point in having "slack and imaginative" cash limits, and emphasised the need for co-operation by the members of the UPW in an effort to raise their productivity.

Various Members complained about the size of the telephone waiting list and there was a little criticism, if only from Bob Cryer, of the appointment of someone from the "magic circle".

Keith Joseph said more than once that the discipline of cash limits was essential, but that he was looking into ways of getting private capital into the telecommunications investment programme. He also re-emphasised the role of the unions in improving the performance of the postal service.



Ms

16 April 1980



DRAFT STATEMENT ON POST OFFICE MANAGEMENT CHANGES

With permission, Mr Speaker, I understand it would meet the wishes of the House if I were to make a short statement about impending changes in the senior management of the Post Office.

Sir William Barlow has made excellent progress with the administrative preparations for the legislation the Government intend to introduce soon to separate the Post Office into two Corporations.

Sir William knew that I hoped he would become the Chairman of British Telecommunications but to my great regret told me shortly before Easter that he would prefer to resume his career in the private sector. Sir William has always had my respect and admiration for all that he has done and sought to do in the Post Office during the past 2½ years. His departure later this year will be a heavy loss to the public sector, though I have no doubt it will be a great gain to private industry.

I also announced yesterday that after consideration of a number of other possible candidates I was appointing Mr Ron Dearing, a Deputy Secretary in my Department, to be a Deputy Chairman of the Post Office and Chairman-designate of the postal business.

16 APR 1960



Five

Post + telegrams.

DSG

C.F.

7 February 1980

Thank you for your letter of 6 February with which you enclosed a copy of the Daily Telegraph article of 4 February on the postal service. I understand that a joint working party of the Post Office and Department of Industry are evaluating the statistics of international comparisons and that they will be reporting in the summer; but it is helpful to have this material which the Telegraph have put together. (I hope the statement in the article that plans for a further 5p increase in both classes of mail are being mooted is less authoritative than the rest of the article).

I. P. LANKESTER

A. J. Roberts, Esq.

A



POST OFFICE

From the Chairman's Office

23 HOWLAND STREET
LONDON
W1P 6HQ

Telephone:
01-631 2345

6th February 1980

Mr T P Lankester
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 1AA

Dear Mr Lankester

As the Post Office is in the news at the moment, the Chairman thought it might be worthwhile for me to send you the attached article from the Daily Telegraph. It is a fairly authoritative statement of how Post Office services in the United Kingdom compare with those in other European countries and puts into perspective some of the comments which have appeared in the press over the last week or so.

I hope this will be of use to you.

Yours sincerely

A. J. Roberts

A J ROBERTS
Director, Chairman's Office

Letter service fares well in Euro-survey

By CHARLES NEVIN

ON the day that the cost of first and second class letters rises by 2p. to 12p and 10p respectively, a survey of European postal services by THE DAILY TELEGRAPH shows that the Post Office still compares well with its Continental counterparts.

The survey examined the post in West Germany, Italy, France, Spain, Belgium, Sweden and Switzerland.

West Germany emerges as the most expensive country in which to send a standard first class letter at 60 pfennigs (15p).

Spain, without a two-tier system and with a longer delivery time, is the cheapest at 5 pesetas (just under 4p).

In Britain, the Post Office aims to deliver first class letters by the next working day. At present, this is achieved with nine out of 10 letters. The target for second class mail is by the third working day, with the result not as good as with first class.

Britain is one of the few countries in the world which has two deliveries a day and delivers to every letter box. Costs increase after 60 grams weight (about 2oz.), as opposed to 20 grams in Belgium, France, West Germany, Italy and Switzerland.

The Post Office made a £375 million profit last year, but says that without today's increases the postal side would lose £55 million in the year ending March 31. Plans for a further 5p increase in both classes are being mooted.

Run at a loss

In West Germany, postmen deliver once a day and the state run system operates at a loss of more than £660 million a year. But the system is efficient and first class letters normally arrive overnight.

The West German Posts Ministry says that German postmen are required to deliver to every householder, with rare exceptions, such as cottages in remote mountain areas where access roads are endangered by avalanches.

Losses on the postal services are more than balanced by profits in the lucrative telephone and telecommunications systems run by the postal network.

Italians pay 170 lire (9.5p) for a letter, but, as our correspondent writes, their reaction to the "chronic inefficiency" of the country's postal services now borders on hysteria.

Italy is trying to improve the efficiency of its services, and hope that by the end of the year mail between cities will be delivered within 24 hours. They now take anything from 10 to 20 days.

The target for mail between villages and small towns is not more than three days. At present this takes from a month to six weeks.

Plagued by strikes

French postal services are not what they were. Plagued by sporadic strikes, delays and lost letters and parcels are the constant complaint of users, large or small.

Since October last year, first class letter mail in France costs 1.30 francs (14p) and second class 1.10 francs (12p), and the French government has drawn up a £666 million plan to reform and improve services by 1982, aimed at guaranteeing delivery of 95 per cent. of first class mail within cities by the next day, 92 per cent. of inter-city mail by the next day and 97 per cent. of other first class mail by the day after next.

The state owned post office in Spain runs a reasonably good service at moderate prices, but makes no profit.

There is no first and second class mails, but letters within city limits cost three pesetas (2p).

Normal delivery time can be up to a week, but averages three days. Letters within cities usually arrive the next day. Express mail is treble the price, with delivery usually the next day anywhere in Spain — or even in other European capitals.

Deliveries in cities and towns are twice daily and house to house. But in villages there is a central collecting point, and people living in isolated homes and farms have to go to the nearest village to collect mail. Parcels anywhere have to be collected from post offices.

Delivered next day

Belgian postal services break down as follows: letters, 14.9p; cards 10.5p; printed matter, 7.9p; no first or second class distinction. Delivery the following day is normal. Collections are up to seven a week-day, two at most Saturday, with none on Sunday.

Swedish mail is delivered to homes once a day from Monday to Friday. An ordinary letter costs 1.50 crowns (just under 14p), a postcard 1.15 crowns (12p). Saturday delivery is 21p, and there is a Sunday delivery—of express mail, which costs 79p extra.

There are two collections a day, one early evening.

Top copy in Questions

As a result of the 10
are paying money for
a poor service

SUPPLEMENTARIES

- 1 What is the Post Office's record of productivity?
On the Postal side, measured by items handled per mails operations employee, productivity rose by some 15% between 1950/51 and 1969 when the Corporation was established. Between 1969/70 and 1978/79 there has been a decline of about 12%.
On the Telecommunications side, using the measure 'stations per employee', productivity has increased by about 7% per annum over the last fifteen years.
- 2 Are productivity targets set for the Post Office?
In a financial sense, yes. The objective for Posts is for them to contain the overall real unit cost of postal services over the five years from 1977/78. Telecommunications are aiming to reduce their real unit costs by 5% per annum over the same period.
- 3 Are these financial targets being achieved?
Both businesses met their objectives last year, 1978/79, but it is too early to say what the outcome will be over the longer period.
- 4 Are you satisfied with performance on the Postal side?
No. There is undoubtedly room for considerable improvement here, particularly bearing in mind that delivery standards have also declined.
- 5 What is being done to improve performance?
This is a matter for Post Office management. I understand that the Chairman has recently launched a two-year action plan to improve postal productivity and quality of service.
- 6 Is this plan supported by the unions?
I very much hope so, as a healthy postal business is in their long-term interest, but it is for the unions to respond to this question.
- 7 Would these tariff increases have been averted by higher productivity?
To some extent, yes. In any industry if excessive pay increases are not combined with improved productivity then higher costs must either be passed on to the consumer or result in unacceptably low profits.
- 8 Is not the Post Office significantly better/worse than in other countries?
It is notoriously difficult to make reliable international comparisons.
A joint working party of the Post Office and Department of Industry is evaluating the statistics available and hopes to report this summer.

BACKGROUND

PRODUCTIVITY IN THE POST OFFICE

There are no uncontrovertible figures for 'Productivity' in the Post Office.

On the Postal side productivity is usually measured by an index of items handled per mails operations employee. Using this index, between 1950/51 and the establishment of the Corporation in 1969 productivity increased by some 15%; between 1969/70 and 1978/79 there has been a decline of about 12%. It should be noted that productivity measured on this basis tends to be higher as mail volume increases and vice versa. Between 1950/51 and 1969/70 mail volume grew by 33%: between 1969/70 and 1978/79 it fell by about 13%.

A more recent yardstick is the reduction or containment in real unit costs each year. In 1978/79 Posts made a reduction of 3.3% (mainly, however, a result of pension fund adjustments): in 1979/80 the outcome will probably be an increase of at least 1%. The target is for the overall real unit cost of postal services to be contained (ie to show nil increase) over the five years from 1977/78.

These measures must be considered in relation to the quality of service, where the Post Office's target is delivery of 93% of first class letters by the first day after collection (Day B) and 96% of second class letters by the third day (Day D). From 1969 to 1977/78, except in 1973/74 and 1974/75, deliveries were broadly on target. In 1978/79 only 89% of first class letters were delivered by day B and in the summer of 1979 the figure was down to 73%. However, there has been a recent improvement and the cumulative 1979 figure is around 83%. Second class mail delivery has also declined compared to target.

The Chairman recently announced a two year action plan to improve postal productivity and service. The measures include the introduction of traffic measurement, better staffing arrangements based on elimination of restrictive practices, wider use of part-time staff and reduction in overtime. Talks are taking place with the unions within the framework of the co-operation agreements concluded as part of the 1979 pay settlement.

The picture ~~for~~ for Telecommunications is somewhat brighter as there have been sustained benefits from technological change and traffic growth. The index for stations per employee has grown by between 6% and 7% per annum over the last fifteen years. The target for real unit costs is for these to be reduced by 5% a year for the five years from 1977/78. In

1978/79 a reduction of 10.5% was achieved and a further reduction of over 4% is forecast for 1979/80.

International comparisons exist but are unreliable because of differing circumstances in each country. However a joint working party of the Post Office and Department of Industry (as recommended in the Carter Report) is evaluating the statistics available and anticipates making a report this summer.

and parcels they
years.

l, pursuant to his
5 July 1979; Vol.
; answer:

requested is as

Total
parcels handled (m)

N/A
27.6
29.3
6.6
4.2
4.3
4.1
3.8
3.7
3.4
3.8
4.0

N/A
227.3
284.7
310.7
310.6
319.9
322.8
311.3
297.5
277.5
258.9
263.5

N/A
22.8
29.6
35.3
30.0
29.4
28.9
28.5
25.0
26.0
N/A
28.2

N/A
1,171
1,063
1,104
1,100
1,067
1,070
1,033
1,021
N/A
N/A
N/A

ionate cost. Information
ervice as from 1 January
al postal authorities.

Industrial Production

Mr. Knox asked the Secretary of State for Industry if he will publish in the *Official Report* a table showing for each year since 1974 (a) the index of industrial production for all industries, (b) the annual increase or decrease in the index of industrial production for all industries,

(c) the index of industrial production for manufacturing industries only, and (d) the annual increase or decrease in the index of industrial products for manufacturing industries only.

Mr. Biffen: I have been asked to reply.

The information requested—based on 1975=100—is set out in the table below.

INDEX OF INDUSTRIAL PRODUCTION

	All industries		Manufacturing industries	
	1975=100	Percentage change	1975=100	Percentage change
1974	105.1	-4.9	106.5	-6.1
1975	100.0	+2.0	100.0	+1.4
1976	102.0	+3.7	101.4	+1.4
1977	105.8	+3.7	102.8	+0.8
1978	109.7		103.6	

Mr. Kenneth Baker asked the Secretary of State for Industry how many employees of the Post Office are employed in the postal service; and how many

letters and parcels were handled in each year from 1950 to 1978.

Mr. Michael Marshall, pursuant to his reply *Official Report*, 16 July 1979; Vol. 970], gave the following answer:

	Letters (m)		Parcels (m)		Mails operations staff ('000) full-time equivalents	Total postal business employees (full-time equivalents) '000s
1950-51	8,500	233	233	109.6	n.a.	
1954-55	9,500	243	243	109.9	n.a.	
1959-60	10,200	235	235	114.5	n.a.	
1964-65	11,200	216	216	121.9	n.a.	
1969-70	11,400	208	208	126.1	172.9	
1970-71	10,500	181	181	125.5	173.1	
1971-72	10,550	189	189	124.7	173.5	
1972-73	10,790	194	194	123.7	172.6	
1973-74	11,010	195	195	121.4	170.1	
1974-75	10,878	201	201	127.1	177.6	
1975-76	9,903	170	170	124.4	174.3	
1976-77	9,383	163	163	122.2	171.0	
1977-78	9,485	160	160	119.8	168.3	
1978-79*	9,965	172	172	122.5	172.1	

Notes:
(1) The information could not be provided for all years except at disproportionate cost.
(2) Figures for total postal business employees are not available for years prior to the establishment of the Post Office Corporation in 1969.
* Provisional figures only.

Nuclear Energy

Mr. Skeet asked the Secretary of State for Industry whether he is prepared to initiate legislation to permit the public to participate in the equity of British Nuclear Fuels Ltd. and Radiochemical Centre Ltd. in association with the Atomic Energy Authority.

Mr. Norman Lamont: I have been asked to reply.

As my right hon. Friend the Chancellor of the Exchequer said in his Budget speech, we have embarked on our review

of the scope for the sale of assets in the public sector and this is continuing.

Industrial Development Certificates (London and Birmingham)

Mr. Shore asked the Secretary of State for Industry what intra-regional preference in the issue of industrial development certificates he intends to grant to the inter-city partnership areas in London and Birmingham.

Mr. David Mitchell: The partnership areas of inner London and inner Birmingham are continuing to enjoy priority, for

NEWS SERVICE

Release time: Immediate/THURSDAY, 31st January 1980 54/80

Statement by Mr Michael Grylls MP (Surrey North West), vice-chairman of the Conservative Parliamentary Industry Committee, on Thursday, 31st January 1980

THE SCANDAL OF POST OFFICE INEFFICIENCY

Before Sir William Barlow talks of drastic cuts in services as a way out of the Post Office's problems he should put his own house in order.

→ In 1973-74, 170,000 employees handled 11,000m letters and parcels. Last year 2,000 more employees handled 1,000m fewer letters and parcels.

The Post Office mail business is grossly inefficient and productivity has steadily worsened. There is widespread concern among the general public at its performance. Management seems almost to have ceased to manage; overmanning has increased. As a result, the public are paying more for poorer service.

That is the true background to next week's rise in postal charges - and to the latest threats of the Post Office to cut deliveries to individual flats.

The Government is right to review the Post Office monopoly of mail delivery. I hope that it will conclude that private companies have a role to play. Only a state monopoly could have brought the whole postal service to a halt last summer with its "Don't Post" plea. Only a state monopoly could respond to complaints about deteriorating services by increasing charges.

The fresh blast of competition can bring the Post Office management and unions to their sense; and only then will the public receive the value for money they deserve.

END



RESTRICTED

Post + Telecom.

✓ RA

MS

PS/Secretary of State

POST OFFICE CASH REQUIREMENTS

During the discussion with the Prime Minister this morning I said that the Post Office cash limit for the current year was to pay us £110 million. I said that there was a prospective shortfall of about £50 million, on top of the adverse effects of the billing dispute which were very large. All that was correct.

The Prime Minister subsequently said her recollection was that next year the Post Office would require £46 million from us. Although in the spring a figure of approximately that sum was being used, I think I ought to say that the figure subsequently approved by Ministers for next year was a receipt by the Post Office from us of £65 million.*

Since the Prime Minister mentioned the figure of £46 million herself and the £65 million figure has been published, I thought it as well to ask you to give her private secretary the latest published figure. In mentioning this I also have in mind that Mr Kaufman has been taking issue with a remark the Prime Minister made about the Post Office during her television interview with Mr Brian Walden.

Re. Dear

R E DEARING
Deputy Secretary
14 January 1980

* Which will in its turn be offset by delayed receipts from the billing dispute which we are treating as an exceptional item.



Post & Telecom

2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

December, 1979

R28

[Handwritten scribble]

Prime Minister

You should be aware
of this continuing,
unhappy saga.

[Handwritten signature]

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POST OFFICE FINANCES: 1979-80

28/12

Flag A

Thank you for your letter of 17th December, about your latest meeting with Sir William Barlow.

It seems that Barlow is still bending his efforts to keep within this year's external financing limit, albeit with the help of a cosmetic device. So I am prepared to let matters ride for a bit longer as you suggest. Meanwhile I of course support you and the Post Office in rejecting the POUNC recommendation for a lower postal tariff increase in February.

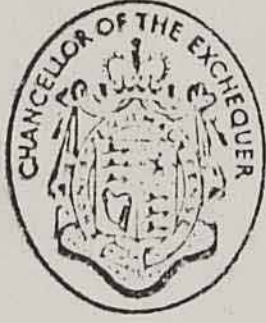
[Handwritten mark]

I should, however, like to take stock with you before the end of January, not least because public presentation of a breach - if it should after all emerge - is going to need careful thought. I agree that it might be attributed to the cost incurred in standing up to industrial action, although we shall need to reflect whether that gives an adequate account of what has happened. Some publicity for the measures already in train to improve efficiency in the Post Office may anyway be needed at that stage. As to 1980-81, I am grateful for your offer, which I shall wish to take up, that Barlow should be pressed to make good in that year whatever shortfall may emerge for 1979-80. But I must remind you that sale and leaseback deals in that year, as a device to keep within an external financing limit, will not be on since, as I told you in my letter of 30th November, we are changing the rules for all nationalised industries. It will rather be a question of further efficiency measures, or of advancing the next tariff package.

[Handwritten mark]

/I am sending

The Rt. Hon. Sir Keith Joseph, Bt., M.P.



I am sending copies of this letter to the Prime Minister and to other recipients of yours.

A large, stylized handwritten flourish or mark, possibly a checkmark or a decorative element.

A handwritten signature in cursive script, appearing to read "Geoffrey Howe".

(GEOFFREY HOWE)

20 DEC 1979

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Post +
Telecon

CONFIDENTIAL

Qa 04387

To: MR LANKSTER ✓
From: SIR KENNETH BERRILL

MBM
R
28/12

Adherence to Cash Limits: Post Office Finances 1979/80

1. The CPRS is concerned about the situation reported on the Post Office cash limits in Sir Keith Joseph's letter to the Chancellor of 17 December. In an attempt to adhere to their limits for 1979/80 the Post Office have already resorted to the cosmetic device of sale and leaseback, for which there is little or no commercial justification. Even so, there is no certainty that the limits will be observed; and Sir Keith Joseph contemplates that they should use further sale and leaseback deals in 1980/81 to make good any shortfall arising this year.
2. This is the first test case of a likely breach of cash limits and it is at least partly attributable to a pay settlement which the Post Office could not afford. Like the Chancellor (his letter of 30 November) we feel it is most important to choose a response which will both impose a discipline and preserve the credibility of the cash limit system. To allow a breach in the cash limit (at the expense of the taxpayer) or to avoid it merely by cosmetic devices, does not seem to us to be adequate. A more positive response is needed.
3. In his letter of 30 November the Chancellor of the Exchequer put forward a number of suggestions, including a ban on recruitment or overtime. Sir Keith Joseph and Sir William Barlow feel that these would be counter-productive. It would, they say, lead to industrial disputes and an unacceptable deterioration in services.
4. If this view is accepted (and in some ways it is perverse to cut back the services of a profitable industry like telecommunications) we believe an alternative approach should be considered. This is to make the Post Office pass their higher costs on to the consumer through increased prices and, at the same time, seek to bring home to the management and workforce that they are at risk of pricing themselves out of the market. In the case of the Post Office this would probably mean that at least some of its existing monopolies should be withdrawn.

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CONFIDENTIAL

5. It may be that this year some use of sale and leaseback is now inevitable. But we think it very important, not least as a precedent for other industries, to apply some form of discipline if the credibility of the cash limit system is to be preserved.

6. If the Prime Minister shares our concern, she may wish to ask the Secretary of State for Industry to examine the possibilities on the lines sketched above (give the Post Office the prospect of increase in prices accompanied by reduction in monopoly) before there is any question of contemplating a breach in the cash limit or seeking a solution through further sale and leaseback or other temporising devices.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB

19 December 1979



119 DEC 1979

CONFIDENTIAL



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

17 December 1979

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

Jean Geoffrey

12
18/12

POST OFFICE FINANCES: 1979-80

Thank you for your letter of 30 November. I am writing to let you know the outcome of my meeting with Sir William Barlow on 6 December. As I said when we discussed this problem earlier last week, he and I have been grappling with the Post Office's financial problems this year since the situation first became apparent last July. We have met frequently since then to discuss matters.

Sir William Barlow assured me again last week that he is continuing to do all he can to meet this year's external financing limit. I am satisfied that this is indeed the case and that he fully deserves our support. As I told you, he is in my view one of the two or three most competent and determined of the nationalised industry chairmen though the management problems he faces are huge and daunting.

Apart from anything else we must not lose sight of the fact that a large part of the Post Office's difficulties has resulted from the determined stand they took over the computer operators' dispute. You will recall that the interruption to their cash flow has cost them £110 million this year in additional interest payments, lost revenue from advertising etc. Readiness to resist strike action is to be welcomed in any circumstances, but particularly so in this case since the unions' tactics were based on selective "guerilla" action - something which we are especially anxious to deter.

Sir William Barlow told me that he was convinced that the recent forecasts quoted in your letter had overstated the risk of a large overrun of the external financing limit. For example, the latest (December) forecasts suggested that the Telecommunications gap at the end of the year would be £10 million, not £19 million. He said that he stuck by his original undertaking to close this gap altogether though the problem on Posts is still proving more intractable. He also told me that the estimated size of the billing backlog at the end of the financial year was still falling as a result of a determined management effort: the latest figure was £225 million.

I put to Sir William the various possibilities which you suggested in your letter of 30 November but, as I foresaw, he did not regard them as likely to produce helpful results. For example, he said



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that a freeze on recruitment would inevitably mean increased overtime; while arbitrary staff reductions would only lead to industrial disputes and an unacceptable deterioration in services. These would hamper his (widely publicised) plan to improve productivity to which the union response has so far been fairly encouraging.

I also pressed him to see whether there were more sale and leaseback possibilities, but I do not think much more can be achieved before the end of the year. (David Young's advice is that the inclusion of an option to buy back the leased property in due course, as you suggested in your letter, would make these deals unacceptable to the purchasing institutions.) Apart from being valid in its own right in a situation where the alternative is to cut investment - and Sir William Barlow himself made the point to me that, if forced to choose, the Post Office need equipment rather than buildings - this whole exercise has had the most useful effect of making the Post Office think hard about the costs of holding on to property. I understand that the search for candidates for sale and leaseback has revealed some underutilisation of land and buildings and has enabled the Post Office to identify assets which it might relinquish altogether, or at least replace with less expensive property. But given the slow speed at which transactions of the sort move, it is unlikely that there will be a significant benefit to the external financing limit this year.

I am reluctant at this stage, for obvious tactical reasons, to broach with Sir William the subject of what we should do if in the end the Post Office fail to meet their external financing limit this year. One possibility is to insist that they make good any shortfall, over and above the sale and leaseback proceeds, in 1980-81. I am willing to press them hard on this although there is a risk that we would be laying ourselves open to the accusation that we are willing to 'take one year with another' when it suits us, but not otherwise. We have to bear in mind that the Post Office have been well within their external financing limits in the last two years. We could however stipulate that they could use any sale and leaseback deals in 1980-81 only to make good the previous year's shortfall but not otherwise. This would have the advantage of setting an overall ceiling on their sale and leaseback plans, while at the same time keeping up the pressure on them to look for suitable leaseback disposals and so scrutinize more carefully in general the value of the properties they are occupying.

Since my meeting with Sir William I have heard that POUNC will be recommending against the 2p/2p increase in postal tariffs scheduled for early in February, and that they will be suggesting increases of 1½p on first class and 1p on second class instead. This would cost the Post Office some £12 million in 1979-80 (and about £72 million in 1980-81 - although I understand that POUNC are likely to concede that a further increase would almost certainly be necessary well before the end of 1980-81). The Post Office are likely to reject the POUNC recommendations and, although this will be unpopular, I do not think we can encourage them to do otherwise in view of the very strong emphasis we have put on the need to hold the external

/financing ...



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financing limit.

I shall be continuing to keep in close touch with Sir William Barlow and will ensure that you are informed of any significant changes in the position. If in a month or so's time it becomes clear that there is little prospect of the Post Office's being able to avoid altogether some overrun of the limit, we shall need to consider together how a breach of the limit can best be presented publicly. As I have already said, I think we would want to highlight the costs incurred in standing up to industrial action.

I am sending copies of this letter to the Prime Minister, E(EA) colleagues, Patrick Jenkin, Angus Maude and Sir Robert Armstrong.

Leon.

Kew

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PRIME MINISTER

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STATEMENTS IN THE HOUSE

The two statements today - Sir Keith Joseph on Post Office Industrial Democracy and Mr. Walker on the Agriculture Council - passed off quietly. Copies of both statements are attached.

Sir Keith emphasised repeatedly that the reason for the ending of the Post Office experiment was that there was no agreement between the management and the unions. There was some criticism from the Government side, in the person of Sir Derek Walker Smith, who said that he would have liked to see participation making progress. Several members asked about consumer representation on the Post Office Board, and there were questions about whether the Government would publish a report on the experiment.

Sir Keith Joseph said that industrial democracy was in itself a misleading phrase, and that participation had not been put back by this decision. He said that the Government would make available the Warwick University Report and the minutes of the Post Office Board discussions. He said that the whole Board's job was to look after the service to consumers but that the Government would bear in mind consumer representation when appointing new independent members in the near future.

Agriculture

Mr. Walker also had a quiet ride. Mr. Mason said that it was the Government's own economic policies which were forcing it to increase the returns to farmers. He said that the average family's food budget would rise by 50p per week as a result of the devaluation and that it would put 2 per cent on the food index. He said that farmers would benefit by £300 million but that the total cost to consumers would be £450 million.

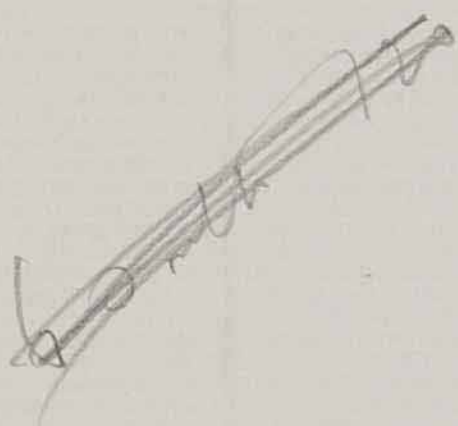
Mr. Walker said in response that the biggest extra cost to farmers was the increase in farm workers' wages, which would cost £220 million. He said that the wine package would be of net benefit to Britain and that he made no concessions of any

/sort on

sort on sheepmeat. He reaffirmed that in no circumstances would the Government change its position on New Zealand imports without the agreement of the New Zealand Government itself.

In response to Mr. Ross, Mr. Walker said that the Cabinet hoped that it would be possible to reduce interest rates "in the near future". He said in response to another question that he was glad to put the record straight on the health regulations on milk. He said that the packaging regulations would expire at the end of the year but the health regulations would not. He regarded them as totally justified until a European regulation was agreed. That could not happen before 1982 and there would then be two more years before it came into force.

There are also questions on apples, the alcohol regime, sugar beat and lamb exports to France. On the last point, Mr. Walker said that the Government's proposals on the green pound had received support from all the other members of the Community except France at least partly because the French were suffering as a result of their illegal position. He finally said that any criticism of the effect of the devaluation on food prices from the Labour side was a bit rich, given their record of increasing food prices by 2 per cent a month while in office.



MS

12 December 1979



PARLIAMENTARY STATEMENT ON THE POST OFFICE
INDUSTRIAL DEMOCRACY EXPERIMENT

With permission, I will make a statement about the future of the Post Office Board.

It is the Government's policy to encourage increased involvement of employees in decisions affecting their interests. But it is not for the Government to lay down how this should be achieved. The precise arrangements are for discussion and agreement between employers and their employees in the light of the particular circumstances of each individual business. This applies equally to nationalised industries, subject to any necessary Government and Parliamentary approval.

In the case of the Post Office, the management and the Council of Post Office Unions agreed two years ago that there should be an experiment in industrial democracy at all levels in the business, including the main Board. My predecessor facilitated in January 1978 the main Board experiment by appointing seven representatives of the Post Office trade unions to be part-time members of the Board. He also appointed 2 consumer representatives. These appointments are due to expire on 31 December, at the end of the agreed two-year period of the experiment.

In accordance with our general policy, it is for the Post Office and the Post Office unions to decide together what form they wish employee participation to take after the end of this year. One thing is quite clear at the present time; they do not agree that



this particular experiment at main Board level should continue. Broadly, the unions are in favour of a continuation, whilst management and a majority of the independent members of the Board are not.

The Chairman of the Post Office is continuing consultations with the unions and is making new proposals for close employee involvement in top level Post Office decision-making. It is for the Post Office management and the unions to agree on the way forward. I shall, of course, be ready to take any action that might fall to me to facilitate whatever new arrangements might be agreed between the Post Office and the unions. If an agreement were to be reached within the next two months which required such action, this could include bringing before Parliament an Order under the terms of the Post Office Act 1977 to make permanent the statutory powers to make additional appointments to the Board.

However, in the absence of agreement that the 2 year experiment should continue, the Board appointments made for the purpose of that experiment will lapse at the end of the year.

I would like to express my appreciation for the contribution made by all those who have played a part in this experiment.



PRIME MINISTER

INDUSTRIAL DEMOCRACY

Since I wrote to Jim Prior on 20 November about the industrial democracy experiment in the Post Office, Jim and I have had a number of meetings with Sir William Barlow, and with Len Murray and other TUC representatives.

It is quite clear that the Unions will make a fuss about the ending of the experiment on 31 December, but Jim agrees fully with my view that the Union nominees should not be reappointed to the Board beyond that date.

We have, however, been able to persuade Sir William Barlow that presentationally it would be desirable to leave open, until the latest possible date, the option of extending the 1977 Post Office Act. Under this arrangement the terms of office of the present Union nominees would expire, without being renewed, on 31 December but no final announcement will be made about the Government's intentions on the size of the Board. In this way it will be theoretically possible to nominate further Union nominees to serve on the Board if there should be agreement between the management and unions to this effect. This is unlikely, though Sir William Barlow has it in mind to suggest to the unions the inclusion on the Board of two senior members of the UPW and POEU executives who are shortly to retire. The separation of the announcements of the expiry of present terms of office and of the final termination of the industrial democracy experiment will provide a further 6 to 8 weeks for more detailed discussions between

Prime Minister

Told industry

RAT

Are you content with proposed draft statement? (We will check the timing of the statement with the leader of the House).

PA

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CONFIDENTIAL

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the Post Office and its Unions, and a longer period for evaluating the results of the two year experiment.

The Chairman recognises that this will put him under considerable pressure, but he is prepared to go along with the idea. It has not yet been decided when he will announce his alternative proposals; he must first put them formally to the Unions. But he will certainly make known his strong views against the experiment and is fully prepared to stand by them.

The concession is more apparent than real, but the longer period should help to defuse the Union's objections that insufficient time has been allowed for consultation and negotiation. I fully recommend this course, and Jim agrees.

I have therefore amended my proposed statement in consultation with Jim, and now propose to make it in the House on Thursday 13 December.

Francis Pym has a statement that day.

... I attach a copy of the revised draft which takes account of comments received from other colleagues and I would be glad to have your approval of it.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Employment, Trade and Energy, the Lord President of the Council, the Chancellor of the Duchy of Lancaster,

/the Paymaster General ...



CONFIDENTIAL

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the Paymaster General, the Minister of Transport, the Chief Whip,
and to Sir Robert Armstrong.

KJ

K J
11 December 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1



DRAFT PARLIAMENTARY STATEMENT ON THE POST OFFICE
INDUSTRIAL DEMOCRACY EXPERIMENT

With permission, I will make a statement about the future of the Post Office Board.

It is the Government's policy to encourage increased involvement of employees in decisions affecting their interests. But it is not for the Government to lay down how this should be achieved. The precise arrangements are for discussion and agreement between employers and their employees in the light of the particular circumstances of each individual business. This applies equally to nationalised industries, subject to any necessary Government and Parliamentary approval.

In the case of the Post Office, the management and the Council of Post Office Unions agreed two years ago that there should be an experiment in industrial democracy at all levels in the business, including the main Board. My predecessor then agreed in January 1978 to facilitate the main Board experiment by appointing seven representatives of the Post Office trade unions to be part-time members of the Board. He also appointed 2 consumer representatives. These appointments are due to expire on 31 December, at the end of the agreed two-year period of the experiment.

In accordance with our general policy, it is for the Post Office and the Post Office unions to decide together what form they wish employee participation to take after the end of this year. One thing is quite clear at the present time; they do not agree that

/this ...



this particular experiment at main Board level should continue. The unions are in favour of a continuation, whilst management and a majority of the independent members of the Board are not.

The Chairman of the Post Office is continuing consultations with the unions and is making new proposals for close employee involvement in top level Post Office decision-making. It is for the Post Office management and the unions to agree on the way forward. I shall, of course, be ready to take any action that might fall to me to facilitate whatever new arrangements might be agreed between the Post Office and the unions. If an agreement were to be reached within the next two months which required such action, this could include bringing before Parliament an Order under the terms of the Post Office Act 1977 to make permanent the statutory powers to make additional appointments to the Board.

However in the absence of agreement that the 2 year experiment should continue the Board appointments made for the purpose of that experiment will lapse at the end of the year.

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11 DEC 1979

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10 DOWNING STREET

THE PRIME MINISTER

6 December 1979

CF to note

Dear T. Rees,

Thank you for your letter of 20 November enclosing one from your constituent, Mr. Linford Rees of the Avenue, Wivenhoe, about the quality of postal services and postal tariffs.

I agree that there is scope for a considerable improvement in efficiency and productivity in the postal business. Keith Joseph announced in the House of Commons on 2 July that unless cooperation to improve the service was manifest it would be necessary to review the Post Office's monopoly for the carriage of letters. He also stated that he would be calling for reports to reach him by the end of the year on possible modifications to the monopoly, their practicability and their implications. In reaching a decision on the future of the postal monopoly, I know that he will take into account the quality and price of the service which the customer receives.

The tariff increase which has been proposed for February 1980 has been made necessary largely by the wages settlements reached this year with postal employees. If wage increases are not paid for through increased productivity they must either result in increased tariffs or be financed by the taxpayer. We do not believe that the latter would be the right course, and have accepted that the Post Office should present its proposals in the normal way for examination by the Post Office Users' National Council.

/ Mr. Rees

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Mr. Rees suggests that our decision to separate the Post Office's telecommunications business from other services will prevent this more profitable undertaking from helping to finance the postal side. However, it is a long standing policy, endorsed by the Post Office Review Committee, chaired by Sir Charles Carter, that the two businesses should not cross subsidise each other. Indeed they are already run separately with their own financial targets and accounts and therefore our proposals for the future structure of the Post Office announced by Keith Joseph on 12 September will not affect the position.

The reason why we have decided to separate telecommunications from the postal business and the National Girobank is that we agree with the Carter Committee's view that the present structure of the Post Office, under a unitary Board legally responsible for both businesses, is bound to lead to over-centralisation and slow decision-taking. The businesses are fundamentally different, and each needs its own independent Board. Thus we see complete and legal separation as an essential step towards improving the effectiveness of both the post and telecommunications businesses. I hope this explanation will be helpful to Mr. Linford Rees.

Yours ever,

Richard

Julian Ridsdale, Esq., C.B.E., M.P.

Mr Duguid



Post + Telecom
Prime Minister

The financial situation of the P.O. is continuing to deteriorate, despite the assurances which we were given that they were trying to economize. The Chancellor is right to be taking a tough line.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

30 November, 1979

Dear Secretary of State,

Handwritten mark

TL

3/12

POST OFFICE FINANCES: 1979-80

This letter is about the threats to the Post Office's external financing limit from causes other than the delay in collecting telephone bills. (I understand the effect of that delay should now be brought down to about £260 million by the end of the current financial year rather than the £400 million that had been expected.)

Flag A

The Prime Minister asked (letter of 30th October) that any sale and leaseback deals by the Post Office, as a means of keeping within their external financing limit for the current year, should be subject to Treasury views. That being so, and given that John Biffen had in his letter of 8th October already expressed some doubts, I was rather surprised at press reports meanwhile - while our officials have been in consultation - to the effect that Post Office have already undertaken such deals to the tune of £20m, and have announced a sale and leaseback programme totalling nearly £100m.

But I have been even more concerned to learn how much the scale of the entire problem has increased since your exchange of minutes with the Prime Minister. The problem is, of course, substantially due to the high pay settlements for both Posts (15 per cent) and Telcommunications (17 per cent). As I understand it, we are now faced with a gap of, not £55m, but £130m which must be covered if the Post Office are to keep within their external financing limit for the current year (1979-80), as eventually adjusted to take account of the billing backlog dispute (your announcement of 1st November). It seems that the deterioration over the past month is due to the Post Office's failure to find the savings through improved efficiency, to offset these high settlements which they had earlier promised us. It is appalling that the Post Office have got themselves into this position.

/Seen from here,

The Rt. Hon. Sir Keith Joseph, Bt., MP



Seen from here, the chain of events appears to suggest management incompetence of a high and continuing order - or at the very least a failure to take the external financing limit seriously. I realise it cannot be as simple as that; and I know you fully share my concern which is magnified by the wider significance of this case. We are, for the first time, faced with an effective breach of a cash limit, or external financing limit, attributable to an excessive pay settlement. It is therefore of the greatest importance for the discipline of the cash limit system as a whole that we judge our response correctly. I should like to meet you to discuss the problem at the earliest opportunity.

Meanwhile I offer now my first views on what should be done. These reflect discussions I have had with my Ministerial colleagues and with officials in the Treasury, but I realise there is plenty of room for discussion both between us and between you and Sir William Barlow and that there are no easy answers.

The first and crucial point is that action must be taken and be seen to be taken in the current year which has a real impact on all concerned with the Post Office's financial situation - Board members, management and employees - and has the maximum financial effect as well. This action must involve a renewed, stringent and immediate search for efficiency; and it must be an initiative which serves as a very real warning to any other nationalised industry and its management which threatens to go the same way, as some are already doing. I have in mind inter alia a swift and visible reduction in employment such as might be secured by a ban on recruitment or overtime of full-time employees for the rest of the year; and action to change the management who carry responsibility for the situation which has now arisen.

To the extent that such substantive measures fail to eliminate the excess of £130 million, we should be faced by a choice of evils. The only way of avoiding an increase in the cash limit would be to resort to some financial device such as factoring or sale and leaseback. Neither would be a genuinely commercial choice for such a profitable organisation as the Post Office. The extra cost of factoring would be much shorter-lived than that of sale and leaseback. But it would be hard to defend action to offset the timing problem on telephone bills when we have already done it once by advancing the collection of PRT. The least bad course seems on balance to be sale and leaseback which the Post Office have indeed already begun. But we should be clear that this is a cosmetic measure which could cause us embarrassment in Parliament. We would have to admit that it was not the commercial course for the Post Office and that it was inconsistent with the general policy endorsed by the PAC that it is cheaper and preferable for the Government to own its property rather than to rent it. We would

/therefore have



therefore have to defend the exceptional use of sale and leaseback in terms of the priority we attach to preserving the cash limit system. We would need to limit the size of the Post Office's deals this year; and it would be preferable if the Post Office could keep open the option of buying back the leased property if that made commercial sense at a time when the cost of doing so could be accommodated within public expenditure totals.

A further general proviso is that we must re-define external financing limits for all nationalised industries so that property leasing should in future score against them as finance leasing now does, thus preventing evasions of the limits and ensuring that the choice between alternative financing methods is made on commercial grounds. This change would apply to the limits for 1980-81. Meanwhile, I would wish to leave colleagues who sponsor other industries in no doubt that I see the PO case as exceptional, and would not wish to see this device resorted to elsewhere to evade an external financing limit.

Finally, to the extent that the Post Office have to resort to sale and leaseback to stay within their 1979-80 limit - which, as I have said, amounts to an effective breach of that limit - we should require a corresponding real terms reduction in the external financing limit we have already set them for 1980-81. This would in its turn impose the need for further cost-saving efficiency measures. The need to cut costs next year is already demonstrable since this year's high pay settlement has put the Postal Business off course, in that year, in relation to its performance aim of containing real unit cuts. I recognise that this extra squeeze comes on top of what the Post Office already consider a tough limit; and that Sir William Barlow will have very strong views about it. We must consider jointly what the consequences of that could be. But in view of the importance of cash limits and external financing limits for our policy on inflation generally, I am sure we must give the first priority to asserting these limits as an effective discipline.

More generally I feel these difficulties are all relevant to your review of the Post Office's monopolies. If we cannot ensure that the Post Office observes its financing limits and achieves its performance aims for costs, the case for breaking up the monopoly must be even stronger than it is already.

I am sending copies of this letter to the Prime Minister, E(EA) colleagues, Patrick Jenkin, Angus Maude, and Sir Robert Armstrong.

Yours sincerely,

Mc Hall

PC. (GEOFFREY HOWE)

[Approved by the Chancellor of the

CONFIDENTIAL



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File TMR

10 DOWNING STREET

Also Messrs. Wolfson,
Hoskyns and Ingham

From the Private Secretary

30 October 1979

Dear Sir.

Post Office Finances

The Prime Minister was grateful for your Secretary of State's minute of 25 October on the above subject. She has noted Sir Keith's further explanation of the action that is needed to eliminate the cash shortfall on the postal side, but she is still very disturbed that the consumer, through higher postal rates, and possibly the taxpayer if the final £55 million cannot be eliminated, are going to have to pay more because of the incompetence of the Post Office management coupled with pay settlements which are not being matched by adequate productivity improvements. While she recognises that there is no easy solution, she hopes that Ministers most closely concerned are considering a propaganda campaign in order to show up what has happened.

In the light of Sir Keith's minute, the Prime Minister is now willing for the Post Office to submit the proposed increases in postal rates to POUNC subject to their being told that they must make every effort to eliminate the £55 million shortfall. The Prime Minister has also noted the proposals for sale and lease-back deals. She understands that, while such deals can certainly help with the cash limit for this year, they may involve longer-term costs which could outweigh the short-term benefits. She has asked that, before any deals of this kind go ahead, they should be subject to any further views from the Chief Secretary.

I am sending copies of this letter to the Private Secretaries to members of E(EA), Don Brereton (Department of Health and Social Security), Richard Prescott (Paymaster General's Office) and Martin Vile (Cabinet Office).

Yours faithfully,

Tim Laker

Ian Ellison, Esq.,
Department of Industry.

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Post + Telecom

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

26 November 1979

The Rt Hon Angus Maude MP
Paymaster General
Privy Council Office
Whitehall
London SW1A 2AT

1261

Dear Angus.

Thank you for your letter of 20 November.

I fully take your point, and agree the alternative draft you suggest would materially help the presentation of my decision.

I am copying this to the other recipients of my letter.

*Erin
Kevin*

6 JUL 1979



CONFIDENTIAL



WFS
Post + Telecomms

10 DOWNING STREET

From the Private Secretary

23 November 1979

Industrial Democracy

Your Secretary of State wrote to the Secretary of State for Employment on 20 November enclosing a draft Parliamentary Statement on the Post Office industrial democracy experiment. He asked for comments by last night, but I now understand that a meeting has been arranged with Mr. Len Murray to discuss this issue next week and that the draft may have to be changed in the light of that meeting.

In view of this, I have not asked the Prime Minister specifically to approve the present draft. She has, however, commented that the Post Office management must be prepared to express, and stand by, their views; and that Sir Keith Joseph ought to reflect their position in his Statement to the House.

I am sending copies of this letter to Ian Fair (Department of Employment), Tony Battishill (HM Treasury), Stuart Hampson (Department of Trade), Bill Burroughs (Department of Energy), Jim Buckley (Lord President's Office), John Stevens (Office of the Chancellor of the Duchy of Lancaster), Richard Prescott (Paymaster General's Office), Genie Flanagan (Department of Transport), Murdo Maclean (Chief Whip's Office) and Martin Vile (Cabinet Office).

I. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

ll



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

November, 1979

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28/11

Dear Keith

INDUSTRIAL DEMOCRACY

Thank you for sending me a copy of your letter of 20th November to Jim Prior. I have since seen Angus Maude's revised draft statement, and agree with the changes he has made.

In order to minimise repercussions in other public corporations, such as BSC, which also have worker directors, and indeed repercussions from the TUC generally, may I suggest the addition of the following paragraph at the end of your statement:

" I should make clear that this change of Board structure arises from the special circumstances of the Post Office. It is wholly without prejudice to future arrangements for the Board structure of other public corporations."

I am sending copies of this letter to the Prime Minister and other recipients of the correspondence.

A handwritten signature in black ink, appearing to be 'G. Howe'.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, Bt., M.P.,



Secretary of State for Industry

CONFIDENTIAL

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

20 November 1979

The management must be prepared to express views by their representatives could be prepared for U.K. to say that in the House.

1. Mr Sandhu MS

2. Pina Minic

Comments on this are asked for by tomorrow. But Sir. K. Tomp and Mr Prior are meeting Len Murray to discuss next week. I suggest we await the outcome of that meeting.

Dear Sir

INDUSTRIAL DEMOCRACY

As you know, a two year experiment has been running in the Post Office since 1 January 1978 involving the appointment of seven Post Office Trade Union nominees to the Main Board. The experiment is due to end on 31 December 1979. I have soon to decide whether to re-appoint the Union nominees for a further period; and whether I should ask Parliament to approve the Order required to keep in being the enlarged Board necessary to make room for the union representatives.

Whilst I have not yet received formal reports from the Post Office and the Council of Post Office Unions I have sought the considered views of all those individuals who have actually taken part in the experiment. From these it is clear that there is a wide area of disagreement between the management and the Trade Union members on the results of the experiment, and on whether it should be continued beyond the end of the year. While the union members all support a continuation, the management members, with one exception, consider that the present form of the Board prevents it from carrying out its essential tasks effectively.

I do not think it would be right for me to bring any pressure to bear on the Post Office management to persuade them to change their views. To do so would almost certainly result in the resignation of the Chairman and perhaps some of his senior management team. In any case, it is our general policy to leave it to managements and their employees to agree on appropriate arrangements for closer work involvement in decisions affecting their interests. You have repeatedly made it clear that we do not believe such arrangements should be imposed by legislation.

I am, however, anxious that the ending of this Board level experiment should not be seen as a setback to worthwhile worker involvement in the Post Office. Parallel experiments at regional and area level will continue until next year, when it will be

/up to the

*TL
21/11*



up to the Post Office and the unions to review them. In addition, Sir William Barlow has prepared detailed proposals for setting up two new consultative councils, one for each main business, which would bring together senior management and the union leaders for discussion of important issues before Board decisions are taken. He will be ready to put these proposals to the unions, and make them public, as soon as I have announced my decision not to reappoint the union nominees to the Board.

...
...
I propose therefore, subject to any views you, or my other colleagues to whom this letter is copied, may have, to make an oral statement to the House on the lines of the attached draft. As you may have seen, there has already been some press speculation about the Government's intentions and, if the Leader of the House agrees, I should like to make the statement as early as possible after 26 November. I would therefore be grateful for comments by Thursday 22 November.

I realise that my decisions will not be welcome to the Post Office Unions, or to the TUC, from whom the pressure for worker directors first arose. They will no doubt try to extract the maximum advantage from the situation; our response must be that a perfectly reasonable alternative is being offered to them and that our decisions are in no way anti-union. But I am concerned that if we are to obtain any substantial improvement in the performance of the Postal and Telecommunications businesses we must restore to management the ability to manage effectively, which has been seriously weakened by the presence of union representatives on the Board.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Energy, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Paymaster General, the Minister of Transport, the Chief Whip and to Sir Robert Armstrong.

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Lean.

Keir



DRAFT PARLIAMENTARY STATEMENT ON THE POST OFFICE
INDUSTRIAL DEMOCRACY EXPERIMENT

With permission, I will make a statement about the future of the Post Office Board.

It is the Government's ^{general} policy to encourage the involvement of employees in decisions affecting their interests, in the belief that this will generally be to their benefit and to the good of the industry as a whole. But it is not for the Government to lay down how this should be achieved. The precise arrangements are for discussion and agreement between employers and their employees in the light of the particular circumstances of each individual business.

In the case of the Post Office, the management and the Council of Post Office Unions agreed two years ago that there should be an experiment in industrial democracy at all levels in the business, including the main Board. My predecessors then agreed in January 1978 to facilitate this experiment by appointing seven representatives of the Post Office trade unions to be part-time members of the Board. These appointments are due to expire on 31 December, at the end of the agreed two-year period of the experiment.

In accordance with our general policy, we believe that it is for the Post Office and the Council to decide what form they now wish employee participation to take after the end of this year.

However, from the views I have already received from the Post Office and the unions on the experiment at Board level, it is quite clear that there is considerable disagreement about how present arrangements have worked and whether they should continue. In view of this - the absence of a clear measure of agreement - I believe it would not be appropriate for me to make Board appointments which would continue the experiment beyond the agreed period.



From 1 January, therefore, the Post Office Board will revert to its previous size and structure; and I shall not be bringing before Parliament the Order that would have been necessary under the terms of the Post Office Act 1977 to extend the statutory powers to make additional appointments to the Board.

However, I understand that Sir William Barlow has been in consultation with the unions concerned as to how employee participation in the Post Office might be practised most effectively, and that he will be announcing his proposals later this afternoon for close employee involvement in top level Post Office decision-making. I will, of course, be ready to take any action that may fall to me to facilitate whatever new arrangements may be agreed between the Post Office and representatives of its employees.

10 11 12 1 2 3 4 5 6 7 8 9

20 NOV 1979



Post & Telecommunications

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

20 November 1979

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
Victoria Street
London SW1

R.
2/14

Dear Keith,

INDUSTRIAL DEMOCRACY

Thank you for sending me a copy of your letter to Jim Prior about the Post Office Board, together with a draft of your proposed Parliamentary Statement.

I concur with your decision but I would like to suggest an amendment to the order of paragraphs in your proposed statement. It seems to me that if you announce your decision before saying what is at present contained in the last paragraph of your draft you will provoke an Opposition uproar which will cause the important last paragraph to be drowned.

I enclose an alternative draft which, while retaining the substance unchanged, seems to me to stand a better chance of getting across in the House.

I am copying this letter and the attachment to the recipients of yours.

Yours ever,

Angus

ANGUS MAUDE

C O N F I D E N T I A L

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INDUSTRIAL DEMOCRACY EXPERIMENT

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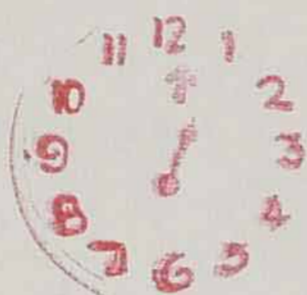
C O N F I D E N T I A L

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Meanwhile I believe it would not be appropriate for me to make Board appointments which would continue the original experiment beyond the agreed period.

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21 NOV 1979





DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

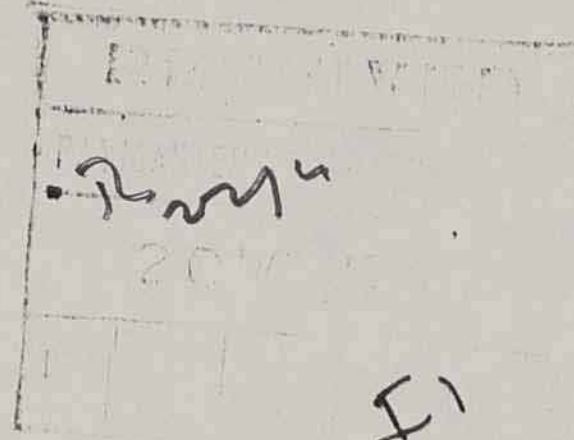
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

20 November 1979

CONFIDENTIAL

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1



Dear Jim -

INDUSTRIAL DEMOCRACY

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...
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I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Energy, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Paymaster General, the Minister of Transport, the Chief Whip and to Sir Robert Armstrong.

Yours,

Keith

A long, horizontal, slightly wavy line drawn in black ink, extending across the width of the signature area.

DRAFT PARLIAMENTARY STATEMENT ON THE POST OFFICE
INDUSTRIAL DEMOCRACY EXPERIMENT

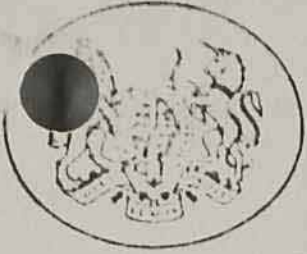
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~~However,~~ (from the views I have already received from the Post Office and the unions on the experiment at Board level, it is quite clear that there is considerable disagreement about how present arrangements have worked and whether they should continue. ~~In view of this, the absence of a clear measure of agreement~~ I believe it would not be appropriate for me to make Board appointments which would continue the ^{original} experiment beyond the agreed period.



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Meanwhile, A

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10 DOWNING STREET

From the Private Secretary

20 November 1979

B/F 23-11-79
In Hansard

The Prime Minister has seen a copy of your Secretary of State's letter of 14 November to the Chancellor of the Duchy of Lancaster about his intention to set in hand arrangements for the creation of a new corporation to handle telecommunications.

The Prime Minister has no objection to the proposed Answer, in which Sir Keith Joseph intends to make his announcement. She has commented, however, that he is still likely to run into some opposition in advance of the passage of legislation which will ultimately be necessary.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Trade, Energy, Scotland, Wales and Northern Ireland, the Paymaster General, and to Martin Vile (Cabinet Office).

M. A. PATTISON

Peter Stredder, Esq.,
Department of Industry

AS



Secretary of State for Industry

Yes - but he will still run into opposition in advanced stages

write

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

14 November 1979

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster
Privy Council Office
68 Whitehall
London SW 1

PRIME MINISTER

Sir Keith intends to clarify his intentions to create "British Telecommunications" in a P.Q. This will be within existing legislation. Content with the attached Answer?

MAP 14/11

Dear Norman,

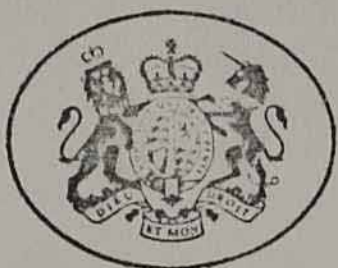
As you may know, Harry Ewing raised as a point of order in the House recently the complaint that the Chairman of the Post Office was going ahead with the administrative arrangements for the split of the Post Office before legislative proposals had been laid before the House. Although the Speaker ruled that this was not a matter for him, I believe that there would be some advantage in clarifying the position and I intend to do so by means of an arranged PQ early next week.

The Chairman is also keen that the name of the new corporation should be settled as soon as possible as an important step towards creating a new sense of identity among its future workforce. He has suggested "British Telecommunications" and I agree that this is a suitable name. Sir William recognises that it might be a bit cumbersome for some purposes and he proposes using "Telecom UK" as an alternative business name.

If you, and other colleagues to whom I am copying this letter, agree I should like to include a reference to the name of the new corporation in the arranged PQ. I should be grateful, therefore, for any comments by Friday, 16 November.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Trade, Energy, Scotland, Wales and Northern Ireland, and the Paymaster General and to Sir Robert Armstrong.

Keith



DRAFT PARLIAMENTARY QUESTION AND ANSWER

To ask the Secretary of State for Industry what instructions he has given to the Chairman of the Post Office concerning preparation for the separation of the Post Office and creation of a new telecommunications corporation?

When I announced on 12 September the Government's intention to create a new telecommunications corporation I said that I would ask the Post Office Chairman to set preparations in hand and this I have now done. In the last 10 years the two main businesses of the Post Office have been given an increasing degree of autonomy. Nevertheless considerable work will still be required in order to ensure that the transition to the new structure will be as smooth as possible. The Carter Committee recommended that this work should be set in hand in advance of legislation.

I am anxious, in the interest of the businesses, their customers and their employees, that the Post Office should make early and substantial progress towards the new structure. While there can, of course, be no question of going further than existing legislative provisions allow, I believe that it should be possible for the main changes in practical terms to have been substantially achieved by the middle of next year. Final completion of the process of separation and the formal establishment of the new telecommunications authority - which I propose should be called "British Telecommunications" - will then require the passage of legislation and I intend to present the necessary Bill to Parliament as soon as possible.

↳

Post and Telecomms

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Nott MP
 Secretary of State
 Department of Trade
 1 Victoria Street
 London SW1H 0ET

7 November 1979

*R 8/4**Dear John,*

POST OFFICE FINANCES: 1981-82 ONWARDS

I feel that I should comment, in advance of Thursday's Cabinet, on the letter you wrote to Keith Joseph on 31 October.

The philosophical questions you raise about financial targets and economic pricing are clearly of importance. I would hope, however, that it might be possible to separate a resolution of these general issues from an immediate decision about the Post Office investment and financing review figures for the later years. The borrowing figures must be settled to enable us to finalise PESC, and to enable the Post Office to plan their investment programme sensibly on the usual basis of 100%, 85%, and 70% for the first three years respectively. I would like to suggest, then, that we settle the figures on Thursday on the basis Keith Joseph has proposed, on the understanding that that is without prejudice to the method by which the Post Office is to live within those figures. That is to say, it would notionally be possible for them either to raise prices, or to make cuts in their investment programme; our officials and those of the Department of Industry will need to pursue their discussion on both topics, with a view to a reasonably early announcement of the revised financial target.

As I say, your arguments about the financial target have some force. It clearly is important that we do not allow the Post Office to exploit their monopoly; and I quite agree that as a general principle nationalised industry pricing should be related to long-run marginal costs. I think, though, that there are one or two other things we shall need to bear in mind when fixing the eventual level of the financial target. First, it is consistent with Cmnd 7131 - whose general principles we

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endorsed in July - that the setting of a financial target should take into account the implications for the public sector borrowing requirement (see paragraph 73 of that White Paper). In translating the 5 per cent RRR into pricing policy which is not in this case a very precise exercise in numerical terms a particular problem is to assess the likely pace of technological change which is to take place in telecommunications over the next decade or so. If the Post Office now expect a faster pace than was earlier assumed, this would itself imply a higher return on capital in the next few years, since the return on that capital (which needs to earn the RRR over its lifetime) is going to decline as soon as new and technologically advanced plant comes on stream, thereby enabling lower prices to be set. These arguments seem to point towards a target somewhat higher than 6%, at least for the next few years.

You are clearly right in saying that we should not allow our public sector monopolies to over-price. But I think we must explore the case of the telecommunications target in more detail before we conclude that over-pricing is really at issue here.

You will now have seen from my letter that the wider question you raise about the Post Office's access to capital markets is to be remitted to study by officials.

I am sending copies of this letter to Keith Joseph, other Cabinet colleagues, and Sir Robert Armstrong.

Yours

John Biffen

JOHN BIFFEN

NOV 8 1979



Can I have run a
CBI meeting at Treasury

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From the Secretary of State

The Rt Hon Sir Keith Joseph MP Bt
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1

at the Home

31. October 1979

R 3/10

Dear Keith

POST OFFICE FINANCES: 1981-82 ONWARDS

I am rather concerned about the implications of the action you propose to deal with the Post Office's finances, as set out in your letter of 23 October to John Biffen.

I recognise that about half the deterioration reflects the Post Office's continuing revaluation of its assets, which evidently makes it necessary to raise the financial target to 6% merely to stand still. This certainly seems an unsatisfactory procedure, but on the understanding that it would be consistent with the economic pricing criteria in Cmnd 7131, and hence would not effect the level of prices, I would be content for the target to be raised to 6%.

But I see great difficulty in raising it further to 6½%. As you say, this would not be consistent with economic pricing, and would thus give rise to 2 objections.

First, to push prices above the economic level would be a blatant exploitation of the Post Office's monopoly of telecommunications services. I think we all accept the proposition you advanced when we first came into office that the restraint of excessive prices charged by monopoly nationalised industries was an important Government

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From the Secretary of State

CONFIDENTIAL

responsibility. If we permit exploitation of a monopoly in a state industry simply because the consumer has no choice, we shall undermine the ground on which we are seeking to restrain the exploitation of private monopolies on both sides of industry.

Secondly, we would have departed from the fundamental rules which we are applying to all other nationalised industries (eg electricity and gas) that prices should be related to long run marginal cost and any departure here would undermine our commitment to set them a clearer financial discipline in which to work.

Like John Biffen, I am worried about the effect on the PSBR of the size of the investment plans envisaged. I recognise the dilemma that can arise when the volume of profitable investment open to the Post Office is greater than we can afford to finance, and this underlines the importance of enabling them in such circumstances to borrow from the market without Treasury guarantee outside the PSBR. I hope NIP will urgently look at this. We must face the fact that resources for all investment, even profitable investment, are limited, and this may call into question the feasibility of undertaking investment programmes not only of the Post Office but the other nationalised industries too. The private sector faces the same dilemma. In this particular case I feel strongly that it would be wrong to solve the dilemma by accepting now that we should force prices above the economic level, so far ahead of any firm investment proposals from the Post Office, and given the inevitable uncertainties attached to forecasts of this nature.

I am copying this letter to our Cabinet colleagues and to Sir Robert Armstrong.

*Yours ever
John*

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PS At the heart of my concern lies the fundamental question of the distribution of investment capital between the public trading corporations and the private sector (where the returns may be higher).

JOHN NOTT

31 OCT 1979

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Post + Telecom

cc Mr Hodgkins

Treasury Chambers, Parliament Street, SW1P 3AG

29th October 1979

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

MBM

*R
30/10*

Dear Keith,

POST OFFICE FINANCES 1981/82 ONWARDS

In your letter of 23 October you set out the Post Office's proposals for eliminating part of the increases in the Post Office's financing requirement for the later years of the survey period which have emerged since the investment and financing review was compiled in July.

The proposal to raise the financial target for telecommunications to 6½% eliminates the greater part of the excess and I therefore welcome it. I agree with you that such a move is justified, in the case of telecommunications, by our public expenditure objectives. I also welcome your proposal to explore with the Post Office ways of making the target's cash flow implications less vulnerable to the whims of the auditors. I think it would be sensible to postpone any announcement of the revised terms until officials have reported the results.

I also agree with you that a proper level of investment in telecommunications is important for business and for the country generally and that the business should not be allowed to fall behind its international competitors. On the other hand the very large fluctuations in the Post Office's forecasts of the investment they require to make do not promote confidence in the figures which are likely to be revised several times before the period in question. I therefore doubt whether the consequences of eliminating the excess would be as serious as Sir William Barlow suggests.

We will need to consider the acceptability of these remaining increases in the light of claims from other nationalised industries and the position on public expenditure as a whole. We will be in a better position to do this when a number of

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uncertainties, in particular concerning the figures for the Gas and Electricity industries, have been eliminated and I therefore propose that we take note of the Post Office's revised figures for the time being and consider them further in Cabinet on 1 November in the light of fuller information about the other industries.

You also suggest that commercial borrowing by a profitable nationalised industry should not be counted against the PSBR and that this problem should be studied further by NIP. I quite understand your view on the desirability of easing the constraints on borrowing by the profitable industries to finance investment that is economically justified and I am very willing to agree that NIP should study the problem. On the other hand it is difficult to see how the borrowing of the Post Office could not count against the public sector borrowing requirement as long as the Post Office remains in the public sector, irrespective of whether it borrows direct from the market or from the NLF. While the financial markets pay attention to the PSBR, it is bound to be a constraint.

As regards timing, I think it is important that we should finalise the future years' figures in Cabinet on 1 November, including the nationalised industries figures. I cannot therefore agree to your suggestion that the finalisation of the figures should await the conclusions of NIP on the public sector borrowing requirement.

I am sending copies of this letter to Cabinet colleagues and Sir John Hunt.

A handwritten signature in cursive script that reads 'John Biffen'. The signature is written in dark ink and is positioned above the typed name.

JOHN BIFFEN

30 OCT 1954



PRIME MINISTER

Post Office finances

I am not sure from your manuscript note whether you are willing to agree that the Post Office should now put forward proposals to POUNC for increased postal rates (see penultimate paragraph of my minute). Sir Keith Joseph is pressing for a decision on this, and the Treasury are very keen that you should agree. Although from an inflation point of view the increase is undesirable, the Treasury can see no way of closing the Post Office financing gap if the increases are not brought forward to February.

Are you willing to agree this on the basis that the Post Office make every effort to eliminate their remaining cash shortfall by **improved** productivity etc.?

Yes
12.

29 October 1979

PRIME MINISTER

cc: Mr. Wolfson
Mr. Hoskyns

POST OFFICE FINANCES

We recently wrote to DOI (Flag A) about the £400 million deterioration in the Post Office cash position in 1979/80. This minute (Flag B) from Sir Keith Joseph answers the questions we raised. The following are the main points:

- (i) Treasury and DOI are agreed that the £260 million shortfall attributable to the backlog of telephone bills should be compensated by an increase in the cash limit. This seems unavoidable, and also acceptable in that the money will be made up in the early months of 1980/81.
- (ii) The Post Office are proposing to deal with £85 million, out of the remaining £140 million shortfall, by a combination of higher postal rates, higher productivity and sale and lease-back arrangements. How they will eliminate the balance of £55 million shortfall is unclear.
- (iii) On the question of the Post Office pay settlements, Sir Keith admits that the Post Office management were not as tough as they might have been. This was partly because they misjudged their cash position: the Post Office now have a new Finance Director, which is something.

only
£25-

As regards (ii), productivity improvements and other economies will contribute £25 million. Sir Keith argues that it will not be possible to do more than this in 1979/80, though larger savings will be generated in later years. £30 million comes from increasing the postal rates by 2p in February, as opposed to April. £30 million comes from sale and lease-back.

It does not seem to me that we can press Sir Keith any further on the question of postage rates. It is going to be hard enough anyway to avoid a further increase in the cash limit (over and above

/ the £260 m.

the £260 million for the backlog of telephone bills). Shall we say that the Post Office can put the increases to P.O.U.N.C. subject to the conditions which Sir Keith proposes - that they make every effort to eliminate the remaining £55 million shortfall?

I understand that the Treasury are still not entirely happy with the idea of sale and lease-back deals. They think the longer term costs may outweigh the short term benefits. Shall we say that, while such deals could certainly help with the cash limit, they should be subject to any further views from the Chief Secretary?

π.

But we are just going into
culpable inefficiency every time. Is there
no end to it, and what kind of
propaganda campaign are we going to run
to show it up.

(open with the last para of

26 October 1979

) this needs - M.T



PRIME MINISTER

POST OFFICE FINANCES

Following your Private Secretary's letter of 10 October I have had a further meeting with Sir William Barlow.

The Post Office's cash position in 1979/80 is still very much as it was when I wrote to the Chief Secretary on 24 September. The main change is that the likely shortfall attributable to the backlog of telephone bills outstanding at the end of the year on account of the billing dispute has now risen from £260 million to nearly £400 million as a result of a delay in the resumption of billing. However, we are all agreed that there is a justifiable case for increasing the cash limit to cover this part of the shortfall. Parliament will need to be informed very shortly.

On the rest of the shortfall, the Chairman is fully seized of the need for urgent measures and is making every effort to eliminate it altogether. At the moment he hopes to cut the projected shortfall on the postal side from £140 million to £55 million provided he can make the February postage increases I refer to below and complete a sufficient package of sale and leaseback deals before the end of the financial year. This reduction in the shortfall involves £25 million of economies of various kinds and takes account of a wide-ranging package of productivity improvements which Post Office management now intend to press on the unions, following the inclusion of a

/co-operation ...



co-operation clause in the recent wage settlement. These include reducing staff, new standards of work, the employment of permanent part-timers, six day cover for five day working, reductions in overtime, abolition of restrictive practices and the introduction of holiday reliefs. Unfortunately the net effect of such a productivity package will be small in 1979/80 though the Chairman hopes that it may rise to as much as £50 million in 1980/81 and perhaps up to £100 million in 1981/82, though even this is fairly small in relation to the total wage bill on the postal side of some £1500 million in 1980/81. He is pressing it very hard and we must be prepared to help him in every way we can.

Sir William Barlow has told me that further improvements in productivity could only come through reductions in standards of service. I have explored with him the possibility of these but to produce any significant savings they would have to be of a very radical nature and the public reaction would be out of all proportion to the money involved. There would probably be union resistance leading to industrial action which would set back the chances of co-operation on the productivity package. Moreover, experience with the ending of Sunday collections shows that reductions in service, once made, tend to be difficult to reverse.

I therefore see no alternative to resorting to some sale and leaseback deals. Like you, I think it is absolutely essential for the credibility of cash limits that every step possible

/should ...



should be considered to eliminate the shortfall. While I recognise that, as the Chief Secretary says, such sales could in some circumstances prove disadvantageous to the Post Office and to the public sector generally in the longer term, it is the kind of measure that firms in the private sector would have to resort to in similar circumstances. I have asked David Young, who has been acting as an unpaid consultant to the Department on industrial property matters, to discuss the proposals with the Post Office and officials. In his view present circumstances in the property market offer an encouraging chance of negotiating terms advantageous to the Post Office. I will of course keep this aspect under close surveillance.

A 2p/2p increase in postage rates would have been necessary in April if the postal business was to have met its financial target. However, because of the considerations I refer to above, I see no alternative to bringing the increase forward to February which will raise £30 million this year: without it I see no prospect of cutting the gap. It is important to bring home to the public the link between pay and tariff increases. Even at their new rates of 12p and 10p, our first and second class letter tariffs will not in fact even at purchasing power parity exchange rates be out of line with those in other European countries, (where, unlike here, they are generally subsidised) and they will only just have kept pace with the RPI over the last three years.

I therefore propose to give Sir William Barlow, the go-ahead to approach POUNC subject to my seeing the details of the

/package ...



package of tariff increases he proposes before he does so and on condition that he continues to make every effort to eliminate the remaining £55 million shortfall.

Your Private Secretary's letter asked whether the Post Office management could not have taken a tougher line in the negotiations which led to the pay settlements resulting in this shortfall and what information was given to the Department in advance of final settlements which were likely to take the Post Office over their cash limit.

It seems clear that Post Office management did not themselves become aware that the cash limit was likely to be exceeded until mid-June. As late as the beginning of June they were still prepared to agree to a £5 million tightening of their cash limit as part of 1979/80 public expenditure exercise. When they submitted their 10p/8p tariff package to POUNC at the end of May they still believed that it would suffice to meet their financial target and cash limit. It is now clear that they were over optimistic and it may be relevant that the finance Director of the Post Office at that time has since been replaced by someone in whom the Chairman has much greater confidence.

The Chairman first informed me of some deterioration in the cash limit position in a letter at the end of June. I have since held repeated meetings with him to discuss the situation and we have gone over all the possibilities. You will remember that at the time the Post Office were successfully

/standing ...



standing out against the computer operators and clericals, who after a long strike (costing the Post Office some £125 million in all) got no more than they could have had at the start. The first part of the Union of Post Office Workers (UPW) settlement, however, had been agreed by then and this (together with the effects of the budget) already took the postal business well over its share of the cash limit. The Department had not been consulted before the offers were made. But there was still a chance of standing firm against the second tranche, which the UPW were seeking to bring them onto a par with the Post Office Engineering Union (POEU). I pressed the Chairman strongly about whether he really needed to make these further concessions. He argued that the Post Office were having the utmost difficulty with recruitment in key areas like London. Moreover, management were determined to get the UPW to discuss efficiency measures again after the rejection of the union executive proposals by the UPW conference. He felt that the union executive were now prepared to talk but there was no hope of that unless a second tranche settlement was conceded. There would certainly have been a confrontation and industrial action. His strategy was to settle the grievances that had built up as a result of previous pay policy and in that way to buy co-operation on future efficiency measures. He now feels he has achieved that and prepared the basis for the productivity improvements which I referred to earlier.

There was of course no question of my giving or withholding my consent to the pay settlements he was negotiating. I made it

/clear ...



clear that the Government attached overriding importance to his holding the cash limit and that he should not expect that he would be allowed any increase on it in order to pay for excessive settlements. Had I sought then to give or withhold my consent on the pay settlements our position today would in my view be much more difficult. Either I would have given management the alibi for breaching the cash limit by consenting or the Government would have been brought into direct confrontation with the unions. But the corollary is that we must now insist that the Chairman bends every effort to keeping within the cash limit even if the means may be painful and unpopular.

I am copying this minute to members of E(EA), the Secretary of State for Health and Social Security and the Secretary to the Cabinet.

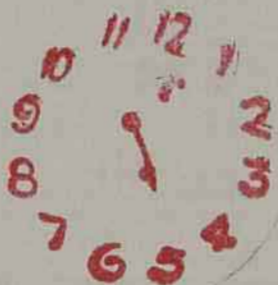
KJ

K J

25 October 1979

Department of Industry
Ashdown House
123 Victoria Street

25 OCT 1979



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Tel.

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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Secretary of State for Industry

John Biffen 23 October 1979

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Parliament Street
SW1P 3HE

MBM

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24/10

John Biffen

PO FINANCES 1981/82 ONWARDS

You will recall that the Post Office's latest forecasts show a serious deterioration in their external finance requirements compared to the forecast they submitted for the investment review. The figures at survey prices compare as follows (£m):

	81/82	82/83	83/84	Total
Investment review	-46	-99	-205	-350
Latest forecast	232	80	- 12	300
<hr/>				
Deterioration	278	179	193	650

I have now discussed the problem with the Chairman. Part of the deterioration (particularly of that in 1981/82) is due to investment and other expenditure deferred in order to ease the tight situation in the current year and 1980/81. About half the remaining deterioration is attributable to the continuing effects of the asset revaluation which led us recently to revise the Post Office's financial target (provisionally) from 5% to 5½%. The remainder is the result of revised forecasts of growth of demand, partly due to improved estimates of price elasticity of demand.

Sir William Barlow has proposed that a major part of the shortfall should be eliminated by increasing the financial target for telecommunications to 6½%. I think we should agree to that. As a result of the asset revaluation this is effectively no higher than the 6% target which applied until our predecessors reduced it to 5% earlier this year. While I recognise that this is probably a higher return than the Post Office need in order to meet the Cmnd 7131 objective requiring a 5% real return on new investment, I think that the relatively low overall price elasticity of demand for telecommunications services makes this a comparatively secondary consideration when weighed against the public expenditure considerations. In fixing the target at 6½%, however, I would also propose to ask

/officials ...

2.



officials to explore with the Post Office ways of making the target's cash flow implications for the future less vulnerable to sudden variations in the asset valuation. We do not want continuing repetitions of this problem.

The result of increasing the target assumption to 6½% (coupled with certain additional changes in the timing of various payments) is still to leave the following shortfall (£m):

81/82	82/83	83/84	Total
117	61	25	203

Eliminating the remainder would require real cuts in the level of investment which the Post Office consider necessary and which the manufacturing industry is gearing itself up to meet. I should be very reluctant indeed to force the Post Office to do this.

I am impressed by Sir William's vigorously argued case that the telecommunications industry is now on the threshold of important new developments which require heavy capital expenditure on the new services which are required by the business community in this country. We cannot afford to drop behind or to lose our share in the rapidly growing and highly profitable international traffic which is growing at a rate of 25% a year. It is also desirable to move towards a telephone in most homes.

Whatever figures actually go into the White Paper, however, I personally feel very strongly that commercial borrowing by a profitable nationalised industry should not count against the PSBR and I also see no reason why it should be subject to Treasury guarantee. It was our intention, I think, that NIP should study and report on sources and terms of future finance, not just for industries which are being privatised but also for those remaining wholly public. I hope that this work can now be pursued with urgency and that it can include a study of the possibility of altering the definitions used for the purpose of controlling public expenditure and a review of the present rules (and legislation) restricting these industries' freedom to borrow from the market.

It is completely anomalous that investment decisions by a profitable and rapidly expanding industry of key economic importance should have to be constrained by considerations of public expenditure which are quite irrelevant to it. The PSBR constraint is clearly appropriate in the case of industries which are at present subsidised or which could not, for whatever reason, raise money direct from the market without Treasury guarantee. But it is quite unreasonable in my view for it to apply to an industry which would have no difficulty in raising the funds itself if it were allowed to or in earning a generous return on them - one well above the required rate of return envisaged in Cmnd 7131.

/The shortfall...

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3.

The shortfall referred to above causes us difficulties particularly in 1981/2 - even though the Post Office will still be a net repayer of £38m in 1982/3 and £180m in 1983/4. There is time perhaps before coming to a final conclusion for the scope for allowing the Post Office to borrow at least to some extent outside the public finance and without Government guarantee to be considered. I hope that you will agree to this.

I am copying this letter to our Cabinet colleagues and to Sir John Hunt.

Yours,

Keith

23 OCT 1979



CONFIDENTIAL



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From the Private Secretary

10 October 1979

~~BF 26.10.79~~

Post Office Finances

The Prime Minister has read your Secretary of State's letter of 24 September, and the Chief Secretary's reply of 8 October.

The Prime Minister is very disturbed at the deterioration in the Post Office's cash position which Sir Keith Joseph's letter reveals. She understands that £260 million out of the total shortfall of £400 million forecast for 1979/80 is due to the backlog of telephone bills which are likely to be outstanding at the end of the year on account of the billing dispute. Because this amount should be made up in extra receipts in 1980/81, she can see that there may be a case for increasing the cash limit to cover this part of the shortfall.

As for the rest of the shortfall, which is attributable to pay settlements which were apparently not budgeted by the Post Office, the Prime Minister has noted that Sir William Barlow has proposed various revenue savings which are intended to cover at least part of it - though she has also noted that the Treasury have doubts about some of these measures. The Prime Minister regards it as absolutely essential for the credibility of cash limits, and in order to avoid any further financing charge on the Exchequer, that the cash limit should not be increased to cover the deficit on the postal side. At the same time, she has serious reservations about the Post Office putting up the first and second class letter rates again in February in order to help bridge the gap. She believes that, before the Post Office are told they can put forward proposals for these increases to POUNC, a much clearer justification for them is needed. Before Sir Keith gives them the go-ahead, the Post Office should spell out precisely why they cannot make the necessary economies to cover the postal shortfall. For example, what is the scope for further savings from redundancies without the service deteriorating? And if necessary, would it not be better to have some deterioration in the service rather than make the consumer pay a second price rise in this financial year?

Insofar as the shortfall on the postal side is due to excessive pay settlements, the Prime Minister would like to know whether the Post Office management could not have taken a tougher line in their negotiations. Moreover, she would like to know whether Sir William Barlow gave your Department details of the pay offers which his management made in advance of final settlements - as he should have

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/ done if the

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- 2 -

done if the settlements were going to take the Post Office over their cash limit. If such information was given to the Department, what steps were taken to impress upon the management the need to live within their cash limit (without further tariff increases) and to negotiate accordingly?

I am sending copies of this letter to the Private Secretaries to members of E(EA), Don Brereton (Department of Health and Social Security) and Martin Vile (Cabinet Office).

TPL

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

PRIME MINISTER

Post Office Finances

These papers reveal a very disturbing situation at the Post Office. Their cash position for the current year has deteriorated by £400 million since the cash limit was set.

This is for two reasons:

(i) The Computer Operators' dispute will result in a backlog of bills by the end of the financial year of £260 million, though this should be made up in 1980/81. (The permanent cost of the dispute is estimated at £110 million, but the Post Office say that they will recoup this by squeezing their expenditure and through the introduction of higher telephone charges in the second half of 1980/81 rather than next year.)

(ii) A further £140m is attributable to pay settlements on the postal side, which - at around 16% - turned out to be much higher than the Post Office had budgeted on.

It appears that the Treasury are prepared to agree to an increase in the cash limit to cover the £260 million backlog - on the grounds that this is merely a transitory shortfall which will be made up next year. As for the £140 million due to the pay settlement, the Post Office have proposed various economies which would reduce the shortfall by £60-70 million. But the Treasury are not altogether happy with these proposals - in particular, they object to a proposal to sell and lease back land and buildings as being against the long term interests of the taxpayer.

Even without the Treasury's objections, there still remains a large gap on the postal side of £70-80 million. The Post Office are considering increasing the first and second class letter rates by two pence as from 1 February 1980 to help bridge the gap.

/Sir Keith Joseph

Sir Keith Joseph says that this increase would have been necessary anyway at the beginning of 1980/81. The Post Office are still examining whether there are other ways in which they could find savings. But it seems pretty clear that they will come forward with a formal proposal to increase the letter rates as from February, and Sir Keith wants to be in a position to tell them that they can put their proposals to the Post Office Users National Council (POUNC).

It seems to me absolutely essential for the credibility of cash limits that the cash limit should not be increased to cover the deficit on the postal side. (The increases on the tele-communications side can just about be justified on the grounds that it is a temporary cash flow problem.) On the other hand, I do not think we should allow Sir William Barlow to go ahead with his proposals to POUNC without a clearer justification. We need to know much more precisely why he cannot make the necessary economies to cover the postal deficit - for example what is the scope for redundancies without the service deteriorating; and if necessary, would it not be better to have some deterioration in the service rather than make the consumer pay even more?

In addition, I think Barlow should be pressed to explain why he agreed the postal workers' settlement without more of a fight. I suspect, in fact, that the Department of Industry did not put very much pressure on him; but this perhaps reflects a feeling there that it is up to Nationalised Industry Chairmen to live within their cash limits and negotiate accordingly. Unfortunately, where we have a monopoly and where therefore an industry is able to put up its prices, the cash limit discipline may not be enough; and Departmental pressure will continue to be necessary.

Would you like me to write to the Department of Industry making the points in the last two paragraphs?

*Yes please
out.*

9 October 1979

12.



Post and
Telecomms

Treasury Chambers, Parliament Street, SW1P 3AG

MBM

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

R to J

8 October 1979

Dear Keith,

POST OFFICE FINANCES

The situation of the Post Office's finances described in your letter of 24 September is extremely worrying. There are a number of points which concern me in what you now propose.

It is, as you say, unfortunate that the effects of the Telecommunications billing dispute straddle the current and next financial years, increasing the PSBR in the current year by £250 million on current estimates and reducing it by the same amount next year. No doubt you are pressing the Corporation to do all they can to speed up the recovery of outstanding bills and thus reduce the impact on the current year's PSBR. I would not however wish encouragement to be given to the Post Office to pursue the idea of factoring some of their debts for this purpose. The substance of such a transaction would be a relatively expensive form of borrowing by the Post Office from the private sector even though the form of the transaction might enable it to escape the PSBR net. It would be vulnerable to the same sort of criticism as sale and lease back, though I recognise its effects would be short lived.

I am glad to note that the Post Office intend to absorb or recoup the permanent costs of the dispute in 1979/80. But I am concerned that this appears to be at the expense of a deterioration in 1980/81. This is partly masked by the wind-fall benefit to the Post Office in 1980/81 as a result of unwinding of the billing dispute. Leaving this aside, I believe the current forecast is about £50 million at survey prices compared with the figure which we agreed in July of £-15 million after exercising an option cut of £50 million. I hope that in the discussions which will be taking place in the next few weeks about the setting of the cash limit for 1980/81

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you will press the Post Office to make up this shortfall. It is true that the position in 1980/81 has not deteriorated because of the billing windfall but the position taking the current and next year together, clearly has deteriorated.

I hope that the announcement to Parliament of the increase in the cash limit figure for the current year can be made before the publication of the White Paper on 1980/81 so as to enable us to explain the increase in the nationalised industries external financing figure for the current year. I should be grateful if your officials could consult mine both over the text of the announcement and about its timing.

Turning to Posts, I am, like you, most concerned that the Post Office have made pay settlements at a level which involved breaching their cash limit by £140 million. The Post Office should certainly be made to take every practicable step to avoid a breach in the cash limit or a need to increase it. You do not mention the effect of this huge increase in the Post Office's wage bill on their performance objective of avoiding any increase in real unit costs. I hope they will be held to this objective and I welcome the proposal to save £25 million by a stringent economy drive which will contribute towards this objective.

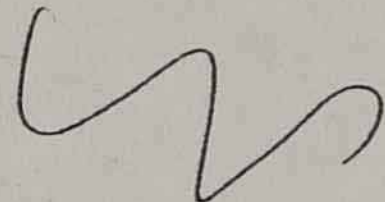
I am however troubled about some of the other measures you propose. If cash limits are to be an effective discipline, industries may need to take drastic measures to live within them and it is right that they should be made to do so. But we also need to consider the financial interest of the public sector as a whole and wherever possible we must avoid forcing industries into measures which are financially unsound and will cost the consumer or taxpayer money. Sale of surplus land and buildings is of course to be encouraged and can be as a contribution to the cash limit problem. It may be that the "Little Britain" site in the City is in fact surplus though I note from your letter that the Post Office propose to lease it back after development. But I think that the sale and leaseback of buildings which the Post Office currently uses and will continue to need raises real problems and any proposals would need to be appraised very carefully. In general it is likely to be cheaper for public sector bodies to own their own buildings, a view which has been supported by the Public Accounts Committee on a number of occasions and may well have wider support. I think it would be very difficult to defend saddling future taxpayers (or postal users) with a need to pay rents on the buildings the Post Office now own at a level substantially above the interest payments which would be incurred if the money were to be borrowed through the NLF.

You also mention the possibility of helping the Post Office through payments by government departments under the agency services agreement being made in the current year which would otherwise not be made until next year. We can certainly look at the position nearer the end of the year but I am, frankly, not hopeful that help can be given to the Post Office from this source. Nor would any such help benefit the financing of the public sector as a whole.

I accept, very reluctantly, that an advance of the proposed 2p/2p tariff increase to 1 February is likely to be necessary. But I think that we need to make it absolutely plain to the Chairman that what has happened this year, with the Post Office negotiating their wage level in total disregard for the consequences to the cash limit, is completely unacceptable. The failure to secure productivity improvements - which are essential if the performance objective is to be achieved - despite the high cost of the settlement is particularly regrettable and I am glad you have made it clear to him that we shall expect real improvements in productivity as soon as possible. This aspect of the proposed tariff increase is sure to make it highly unpalatable to the informed public.

To sum up: I quite agree with the objective you state of eliminating the postal excess in its entirety, as well as the permanent (as distinct from temporary) effects of the telecommunications billing dispute. This is in line with what Nigel Lawson said in his letter to you of 12 August, and with Sir Peter Parker's reminder to us, at the Chairmen's Group meeting in July, that if cash limits are known to be liable to change, their credibility will be lost. But I would be reluctant to see the gap closed by some of the methods I have criticised above, especially sale and leaseback. Clearly every effort must be bent to find other kinds of savings on the postal side, such as outright sale of assets. But in the last resort, as I said in my letter of 30 August, I do not think we should rule out cross-subsidisation of the postal deficit by extra savings on the telecommunications side, whether by way of sales of assets, reduced investment, or cost-saving efficiency measures. I would rather see that than see a breach in the cash limit, as we have defined it.

I am copying this letter to the Prime Minister, the Secretary of State for Social Services, Members of E(EA) and to Sir John Hunt.



John Biffen

JOHN BIFFEN

- 8 OCT 1979



OTO



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②

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PS/Secretary of State for Industry

5 October 1979

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

Dear Nick,

[Handwritten signature]

to

[Handwritten signature] 6/x

I promised to let you have a note for the Prime Minister about the telephone billing dispute. As you know the Telecommunications computer operators' dispute began on 10 April and has now been settled. Most users will be receiving much larger than usual telephone bills in the next few months.

To soften the impact, the Post Office initiated a campaign to encourage people to buy telephone stamps, which can later be used to pay the bills, or to send money in advance to Telephone Area Offices. It is also sending each household and business address a letter explaining the background to the dispute and the billing arrangements. A copy is attached at Annex 1.

It is difficult to be specific about the size of the bills that will be going out, but they are likely to average £40-£70, depending on when in the billing cycle the subscriber is normally billed, with the majority being in the £60-£70 range. The average quarterly residential bill is £23 and the Post Office has warned subscribers to expect their next bill to be at least twice their normal bill. The bills will start going out this week. Most subscribers will receive two larger than normal bills separated by about three months. Normal billing is not expected to be resumed before Spring 1980. The effects of the interruption to the Post Office's cash flow on its ability to meet its cash limit are described in Annex 2. The Post Office has told us that it will consider sympathetically cases of genuine hardship arising from the bills.

Yours sincerely,
Pete

PETER STREDDER
Private Secretary

TELEPHONE BILLS

An important message from the Post Office

The Post Office is taking the unusual step of writing to every household and business address in the country to ensure that everyone is informed about the effect upon our customers of the industrial action which has stopped telephone bills being sent out since last April.

This letter spells out the background, tells you what we are doing and suggests how customers can prepare for the resumption of telephone billing.

Computer files which contain the names and addresses of all our telephone customers were at the heart of the dispute. Although the dispute is over, these records are still not available because of the enormous updating operation, and therefore we could not address this letter only to telephone customers; if your household is one of those at present without a phone we hope you will bear with us - and if you are waiting for a phone to be installed, we are sure you will be interested in learning more about why your wait for service has been longer than usual.

Our difficulties started in mid-April when members of two unions responsible for our computers went on strike. Without the computers we were unable to send out normal bills and most of our customers have not received a bill since the strike began. We have advertised extensively to warn that when the dispute finishes there will have to be a catching up process which will involve bigger-than-usual bills. We have also made special arrangements to advertise our £1 telephone stamps which can be used to save towards bills and have recently introduced a £5 stamp. If you regularly put money aside to pay your bills, it will help later when the telephone bills arrive.

How big will the bills be? It is not possible to be specific but the average quarterly residential bill is £23. The best advice

P.T.O.

we can give is to check on the average amount you pay – and save telephone stamps to cover at least twice that sum.

In most cases customers will receive a bill for two quarters rental, and about nine months' calls followed three months later by a second bill for two quarters' rental and three months' calls. It is not possible to be more exact than this because billing is spread over the twelve months of the year and the time since the last bill was received varies from one customer to another. VAT will be charged at the old rate of 8 per cent for all bills up to those which would normally have gone out by the end of October 1979.

The main effect of the computer strike has been to reduce drastically our revenue from telephone customers, but there have been other effects.

We are particularly sorry that many customers have been kept waiting for new lines and telephone equipment. This is because issues and receipts of telecommunications stores are also processed by computer, and the dispute has made it difficult to get fresh supplies of equipment to our engineers.

The dispute with the unions has now been settled. We shall return to normal billing by the middle of next year and we shall attack the backlog of installations with determination to provide the service that our customers need and expect.

Meanwhile we do urge you to prepare for the large bills that you will get during our recovery programme. Please buy telephone stamps, or send money in advance to the Telephone Area Office whose address appears on your last telephone bill. Include your name and telephone number with any payments. Remember your next bill could be at least twice the size of your normal telephone bill.

We'd be grateful for your understanding and support.

Post Office Telecommunications

20 September 1979

PH2755

THE 1979/80 CASH LIMIT

Although the billing dispute has now been settled it will be some while before the Telecommunication business's normal cash flow can be restored; the Post Office's latest estimate suggests that a backlog of £260 million will remain at the close of the financial year, making it impossible for the Corporation to meet its cash limit of £-110 million. /The Corporation's additional borrowing could be as much as £1 billion by the end of the calendar year.7 In addition the dispute seems likely to cost the Post Office £110 million in 1979/80 (£70 million in extra interest, £40 million for bad debts and other lost revenue). The Post Office have said they will be able to absorb or recoup these costs through a combination of a tough internal squeeze on resources and the introduction of tariff increases in this financial year. /CONFIDENTIAL: As a result of the size of the UPW wage settlement there is also a serious problem over Posts' share of the Post Office's cash limit. The Secretary of State for Industry has been talking to the Chairman of the Post Office about this and Sir William Barlow is currently considering what can be done to improve the position. It may involve a further 2p increase in postal charges as early as February.7

CONFIDENTIAL



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Secretary of State for Industry

24 September 1979

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

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& H 87u*

POST OFFICE FINANCES

I am writing to let you know the outcome of my discussions with Sir William Barlow about the difficulties which the Post Office have been having with their cash limit this year. As you know, we raised this from minus £105m to minus £110m at the time of the budget, but since then the Corporation's financial position has deteriorated sharply to a point where their recent forecasts were showing a shortfall of £400m (i.e a positive borrowing requirement of nearly £300m).

There were two main reasons for this deterioration: the impact of the billing dispute on Telecommunications' cash flow and the level of wage settlements in the Postal business.

The billing dispute has now been settled, but it will take some months for the Corporation to get back to normal and there will still be a backlog of outstanding bills at the end of the financial year. The Post Office's current estimate is that this backlog will amount to £260m, but a lot depends on how consumers react to the large bills they will be receiving and the final figure could be significantly larger or smaller. This is purely a cash flow problem since outstanding bills will be paid by the early months of 1980/81: it is unfortunate that the effects of the dispute will straddle the two financial years.

The permanent costs of the dispute (as opposed to this temporary cash effect) are substantial, amounting to some £110m in 1979/80. (This breaks down into £70m extra interest, £20m bad debt provision and £20m lost yellow pages advertising revenue). However, the Post Office have said they will be able to absorb or recoup these costs through a combination of a tough internal squeeze on resources and the introduction of tariff increases in the second half of the financial year, which they had earlier hoped could be delayed until 1980/81. With the Prime Minister's agreement I have given the Chairman the go-ahead to consult POUNC on the rest of the proposed telecommunications tariff increases.

/So by ...



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So by offsetting the once-for-all costs of the billing dispute the Corporation have limited its effect on the cash limit to the estimated £260m backlog of bills. In addition, the Corporation are exploring the possibility of factoring some of their debts, largely as a way of keeping within their statutory borrowing limit, and this might also have the effect of reducing the cash shortfall to substantially less than £260m. Given the essentially transitory nature of the cash flow problem and the efforts which the Corporation have made to cope with the other costs, I think it would be reasonable to adjust the cash limit to take account of the remaining shortfall. It would probably be desirable to inform Parliament of this soon after the Recess, but not to specify a figure at this stage since, as I have said, the situation is still very fluid.

However, I have told Sir William Barlow that I take a much graver view of the shortfall on the postal business's share of the cash limit. This has increased sharply over the past few weeks to a figure of £140m, and is still largely attributable to pay settlements at a level which was not foreseen when the Post Office formulated their proposals for the recent increase in postal tariffs, and which is not expected to lead, in the current year at least, to any significant improvement in productivity. In my minute to the Prime Minister on 13 August I said that I had asked the Chairman to find ways of remedying this problem. He has now reported back to me with some constructive proposals.

As I mentioned in my letter to Nigel Lawson of 13 September, the Post Office have little surplus land but they have been looking at the possibility of the sale and leaseback of land and buildings. The Chairman has now suggested a sale and leaseback deal with one of the institutions covering the Postal business's headquarters at St Martins-le-Grand and the (undeveloped) site at "Little Britain" in the City. (The Post Office hope that the purchasers would develop this themselves and then lease it back to them.) The precise value of these sites is uncertain but the Post Office estimate that they could raise £20m to £30m this year in this way (and there would be savings on investment expenditure in later years if the Post Office did not itself develop the Little Britain site). I recognise, of course, that rental payments would add to the Post Office's costs in future years, but I hope you will agree that we should encourage them to go ahead. Indeed I should like to see them raising larger sums in this way.

The Postal business has also launched a stringent economy drive and this, together with a squeeze on their working capital requirements, should reduce the shortfall by a further £25m. Another possibility which the Post Office have asked us to

/consider....



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consider is some way of compensating them for the terms of the Agency Services Agreement (that is the agreement which they have with various Government departments for the counter services they provide). This was drawn up at a time when Government departments had cash limits, but the Post Office did not, in such a way that it was the Corporation's cash flow which suffered if inflation was higher than had been expected. The Post Office estimate that it is causing a cash shortfall of £15m this year. I have told the Chairman that I will look into this. Compensating them would not be an act of charity since the money would be paid over anyway in subsequent years. However the extent to which we can help will obviously depend on the cash position of the departments concerned towards the end of the year and I suggest that we should ask officials to report back to us on this possibility in January.

Together these possibilities would reduce the shortfall by £60m to £70m leaving a gap of £70m to £80m. One further step which the Corporation are reluctantly prepared to contemplate is the possibility of a second postal tariff increase this financial year. An increase of 2p on both 1st and 2nd class post is likely to be necessary at the beginning of 1980/81 in any case, if the postal business is to have any chance of making even a small profit next year. Bringing this forward to 1 February 1980 would raise £30m towards the 1979/80 cash limit. I do not underestimate how unpopular this would be and nor does the Chairman, and he hopes very much to avoid it. However, these increases would be just as unpopular in early 1980/81 and to some extent introducing them earlier would underline even more strongly the link between excessive pay settlements and prices.

As the arithmetic stands at the moment even with a 2p/2p tariff increase there would still be a shortfall of £40m/£50m. I have asked the Chairman what more can be done - particularly through more sale and lease-back arrangements - to close this gap and if possible delay the postal tariff increases. However, even if he is able to find some further savings I think we must face the possibility that he will come back to me with the view that the tariff increases are essential. If he does, bearing in mind the tight timetable involved if the proposals were to go to POUNC in time to be implemented on 1 February, I would want to be able to respond immediately and tell him to go ahead. I should be glad to have your agreement now, and that of our colleagues, to my doing so in that event.

I have gone over this year's events in some detail with the Chairman. He has told me that he has tough plans to extract real improvements in productivity from the Unions, and he believes that having this year removed some longstanding pay grievances, he has a good chance of persuading them to become more cooperative. I have left him in no doubt about the importance which we attach to the achievement of concrete results in this area as soon as possible, though clearly we cannot expect much effect on the present year's finances.

/I am....



CONFIDENTIAL

4.

I am copying this letter to the Prime Minister, Patrick Jenkin, members of E(EA) and to Sir John Hunt.

Yours,

Kear

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OCT 11
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18 OCT 1979



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Post and
Telecom

PS/ Secretary of State for Industry

CONFIDENTIAL

12 September 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

R 12/9

Dear Tim,

Mike Pattison and Peter Stredder corresponded during August on the proposal by the Post Office for further increases in telecommunications tariffs, culminating in Mike Pattison's letter of 28 August. The purpose of this letter is to record that following a discussion this morning with my Secretary of State, the Prime Minister has now agreed that the Post Office should receive clearance to go to the Post Office Users National Council with their Stage 2 proposals. As you know, the Post Office Chairman has emphasised that any delay in implementing these on January 1 would have serious consequences for the profitability and cash limit position for the Post Office.

I am copying this letter to Alastair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

Yours sincerely,

ANDREW DUGUID
Private Secretary



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SYSTEM X

THE TELECOMMUNICATIONS NETWORK OF THE FUTURE

System X, the largest single telecommunications development ever undertaken in Britain, is coming to fruition. This unique joint enterprise involving the Post Office and three major manufacturing companies will carry the British telecommunications network into the 21st century - and provide considerable export potential.

It has been developed jointly by the Post Office, the General Electric Company Limited, Plessey Telecommunications Limited and Standard Telephones and Cables Limited. They have also formed British Telecommunications Systems Limited to promote System X throughout the world.

The £150 million development is intended to allow the British Telecommunications network to improve, expand and evolve. To be more flexible and responsive, particularly to public demand for a wider range of services. To give the Post Office greater cost effectiveness in research and development, supply, operations and services. And to improve exports.

The Concept

The System X concept is based on the recognition that the telecommunications network can no longer remain primarily a carrier

of voice messages. Society has changed; so have communication needs. Initially the demand for media to carry information in other forms will come from commerce and industry, but the Post Office recognises that in the future the dividing line between home and office will become much narrower.

The challenge was to devise a system which, far ahead, would meet the needs of a society in which the division had disappeared entirely. A common method was required to carry voice, vision and data signals in a way that could be handled throughout a single system.

The common factor is the language of the computer. System X uses digital methods - the sending of signals and computer instructions in the form of electrical pulses. Digital signals are handled far more easily than analogue signals, which take the form of complicated fluctuating electrical currents.

Messages - whether voice, vision or data - can be reduced to a common digital format, and digital equipment is potentially cheaper than traditional analogue methods. Digital transmission combined with exchanges run by computers and using digital switching - which needs no moving mechanical parts - gives a better economic performance.

Customers Benefits

Post Office customers will benefit from the reduced costs inherent in System X. And the system will lay the foundations for a better basic communications service, combined with new customer services and facilities. Initially subscribers on System X will notice improved quality of speech transmission - less crackles on the line - and a decrease in faults and calls failing to get through.

But there will be much more in years to come. For example:

- super-fast push-button dialling
- the holding of incoming calls while making an outgoing call on the same phone - and then establishing a three-way conference

- automatic transfer of calls over a wide area
- a special signal injected into a phone conversation to serve notice of another caller waiting
- more detailed bills

The Workforce

System X is based on micro-electronic and computer technology, a contentious area in current industrial relations. The Post Office has been concerned for many years with the effects of the micro-electronic revolution on employment - it is twelve years since the first "chip" came into Post Office service.

The Post Office is confident that an expansion of telecommunications business will fully compensate in employment terms for job savings resulting from the introduction of new technology. More than 100,000 engineers work for Telecommunications and that number is not expected to change materially in the next ten years - there is a possibility that the number may increase as the business expands.

Schedule

System X will be phased into service in Britain gradually - 6,000 exchanges cannot be replaced overnight. Foreign buyers are expected to be strongly attracted by the planning options available with System X. It can be used piecemeal to meet growth and modernisation requirements. It also has an inbuilt capacity for overlaying an existing network which will appeal to foreign buyers interested in providing the most sophisticated services to their customers.

New switching equipment will be installed at certain centres - starting next year at Woodbridge, Suffolk - and linked by a skeletal digital network. This overlay will carry phone calls and other traffic that both start and end within the new network, and are connected to the "old" network in between. Several orders have been placed and the Post Office annual ordering levels for System X

are expected to build up through the middle 80s to about £200 million at current price levels.

Eight exchanges are being ordered into service by 1982; five small-to-medium local exchanges at Woodbridge, Arrington in Cambridge, Brixton, Hale in Cheshire and Drighlington in Leeds: two junction exchanges for switching calls between local exchanges will be in Liverpool and the City of London; and a trunk unit in Cambridge for handling long distance calls.

System X will be achieving considerable penetration by the mid-80s. But the massive investment in plant means that it will be some years after that before it completely displaces the existing system.

The Method

System X is much more than just a new type of exchange and means of carrying signals. It is the key to a total system, a philosophy applied to a complete telecommunications service. Beside digital switching and transmission, System X involves:

- stored program control - computers control operations both within and between exchanges;
- instead of huge banks of electro-mechanical switches whirring and clattering their way through connecting calls, System X exchanges will employ silent micro-electronic chips, some of them being tiny, self-contained mini-computers. Full advantage can be taken of the dramatic advances now being made in micro-electronic technology. The major advantages of this system are lower costs, smaller size, easier manufacture and greater reliability. The reduction in maintenance costs should help the Post Office's efforts to contain charges to customers.
- common channel signalling - all signals concerned with the control of calls are passed via a dedicated link direct from one exchange computer to the other. These include signals for the set-up and end of a call and information needed for charging.

- a series of interconnected modules - packages of System X components are designed and built separately to very tightly defined specifications as to how they fit together. This major export selling point brings stability to the overall framework of the system, even though there may be rapidly changing technology within each module.

This approach is fundamental, because System X is evolutionary. Simply, when an even better way is found of doing the work of a particular module, the Mark II version can be easily slotted into the place of Mark I. The development effort required is reduced, because modularity enables "packages" of development to be given to different laboratories in the knowledge that the closely defined interfaces between modules can subsequently come together without difficulty.

And as the software - computer instructions - are also modular, new programs can be given to the computers without causing disruption throughout the system.

Telecom 79

System X will be unveiled to a world-wide audience at the TELECOM 79 exhibition and conference in Geneva this September. The exhibition is also notable in that for the first time the Post Office and the British telecommunications industry are joining forces to present a co-ordinated display of British systems, equipment and capability.

Post Office Chairman Sir William Barlow said of this unique venture: "We shall show that, despite the pessimists, Britain is still a great commercial nation, with a wealth of innovative talent in the advanced technology that will revolutionise the world's telecommunications systems and services. And the most important item will be System X - one of the most significant and exciting developments in world telecommunications today".

PUBLIC AFFAIRS BACKGROUND BRIEFING

AUGUST 1979

If you have any enquiries concerning this briefing please
telephone:

IVOR MILLS on 01-631 2377

or

JOHN EGAN on 01-631 2101

Press and Broadcast enquiries should go to:

SIMON EVANS on 01-236 1170



Post + Telecomms

Treasury Chambers, Parliament Street, SW1P 3AG

30 August 1979

PS/Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

M31/8

Dear Mr Duguid,

FUTURE OF THE POST OFFICE

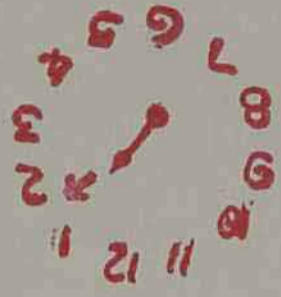
Your letter of 14 August to Tim Lankester at No 10 about a press statement on the future of the Post Office has caused the Financial Secretary to enquire whether your Secretary of State has views on the names for the two new corporations which are to be formed out of the existing Post Office. Presumably the postal side will continue to be known as the Post Office but a new name will have to be found for the telecommunications side. He hopes that Ministers will be given an opportunity to comment on the name for the telecommunications side before decisions are taken.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister, the Home Secretary, the Paymaster General and to Sir John Hunt.

Yours sincerely,

P C Diggle

P C DIGGLE
Private Secretary



30 AUG 1979

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

MBM

R 21/8

Rt Hon. Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

30 August 1979

Dear Secretary of State

POST OFFICE TELECOMMUNICATIONS: FINANCIAL TARGET AND
TARIFF INCREASES

You will know ^{from} Nigel Lawson's letter of 17 August about nationalised industry pay questions of Treasury Ministers' concern that the Post Office should take every possible step to avoid a breach in their cash limit this year. I am glad therefore that, following the letter of 28 August from the Prime Minister's Private Secretary to yours, the way is now clear for the increases in telecommunications charges to be submitted to the Post Office Users' National Council.

Meanwhile John Nott, in commenting on the proposals as set out in your letter to me of 6 August, made the point that we should avoid cross-subsidisation between the telecommunications and posts services, and proposed a more general discussion of the principles of nationalised industry pricing. His concern was reiterated in his private secretary's letter of 24 August to yours. My understanding was that we had agreed at E Committee on 17 July (E(79)5th Meeting, Item 2) to the general approach to economic pricing by nationalised industries set out Cmnd 7131. On the substance of the pricing issue, I am sure that we are all agreed about the importance of insuring that increases in costs are fully reflected in prices, so that consumers are given the right signal to adjust the amount of the goods and services in questions they demand. Similarly, I agree that cross-subsidisation between distinct activities should wherever possible be avoided.

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However, if we were to be faced with a choice between a breach in the cash limit and an element of cross-subsidisation, then in present circumstances I would attach greater importance to the cash limit. In practice I hope that the Post Office will be able to find a way of avoiding this difficult choice, and I look forward to hearing the outcome of the discussions you are shortly to have with the Chairman of the Post Office. On the wider issues of the setting and enforcement of cash limits, I suggest that we defer further discussion until E Committee on 11 September when we shall be taking the Chancellor's paper on nationalised industries' cash limits and performance targets.

I am copying this letter to the recipients of yours.

Yours sincerely

R. Watts

JF

JOHN BIFFEN

(Approved by the
Chief Secretary and
signed in his absence)

31 AUG 1979



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[Faint red stamp]

Post + Tele.

CONFIDENTIAL



JS
cc HMT
DIT
CO

10 DOWNING STREET

From the Private Secretary

28 August 1979

n
The Prime Minister has seen your letter of 24 August with further information about the proposed Post Office tariff increases. She has agreed that these should now be submitted to the Post Office Users' National Council in two stages.

The Prime Minister has commented that she does not doubt that some of the prices do not cover the costs, but she feels that each and every item involved in the costing requires close examination, to determine whether these costs are extravagant.

I am sending copies of this letter to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

M. A. PATTISON

Peter Stredder, Esq.,
Department of Industry.

JB



CONFIDENTIAL

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PS/ Secretary of State for Industry

*Yes - in his stages -
I do not doubt that
none of the prices don't cover the
costs. What's worth examining is
each & every item involved in the
costing and whether
the costs are
containing work.*

24 August 1979

PRIME MINISTER.

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Mike,

*The response to your telephone
conversation from 15 Aug. Industry
seek authority for P.O. to go to
POUNC in two stages. Mr Nott
(Flag A) argues that POUNC should
see all. Earlier papers are at B.
Agree reference to POUNC
in two stages? MAF 24/VIII*

THE POST OFFICE

The Prime Minister has asked some further questions following my letter to Nick Sanders of 17 August.

She was concerned about the large percentage increases in some of the first stage tariff proposals which the Post Office is proposing to put to the Post Office Users' National Council (POUNC).

The first point the Post Office make is of course that these are the first increases in four years, since when retail prices will have increased by over 65%. The Post Office feel they have done well to hold prices for so long.

Second they remind us that they are achieving the target set by the last Government of reducing real costs per unit of output at an average annual rate of 5% over the five years to 1982/83. Over the past five years the number of telephone stations has been increased by a third, but the number of staff employed has decreased by over 5%. They recognise that there is continuing room for improvements in efficiency and over the next five years they aim for the system to increase again by more than a third while staff numbers rise by only 2½%, mainly for modernisation and improvements in the quality of service.

The increases proposed in the first tranche are mostly ones which, on grounds of economic pricing, should have been made some years ago. Some of them would have been made in the autumn of 1975 but for the fact that the package of increases made then (the second in that year) had to be introduced in a hurry because of the deteriorating inflationary situation at that time and it was more readily practicable just to increase unit call charges.

As a result there has been an imbalance ever since between call charges and connexion/rental charges and even the present increases proposed do not go all the way to cover costs incurred. In some



CONFIDENTIAL

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/so cases current charges only cover one-third of costs. While corrective action would have been desirable over the past four years the Post Office has felt unable to take an initiative over the necessary price increases because the telecommunications business has been very profitable and able to meet its financial target without additional tariff revenue. Indeed some two years ago there was much criticism that a refund of £101 million had to be made to customers.

Now, however, the revenue from these increases is essential to meet the Post Office's objectives this year.

... Both the Department of Industry and the Treasury have long been concerned that the Post Office's pricing structure has not so far correctly reflected its costs. The Prime Minister may be interested to see the enclosed extract from this year's published accounts of the Post Office. It vividly demonstrates just how much some telecommunications services are being subsidised by three highly profitable ones: inland subscribers' calls and external telephone and telegraph services. Between them, in 1978/9 the loss-making services had a deficit of £250m. Economic arguments and revenue requirements therefore point to the present need for prices increases contributing to the elimination of losses on particular services.

The Post Office themselves have been very conscious of the percentage scale of the increases necessary and have given a lot of thought to how best the increases could be staged to cause users as little harm as possible. As a result, a number of the increases only go half-way to restoring economic pricing and a further round will be desirable in a year or so. We too have been into these increases in greater detail than we would normally, in view of their size.

The answer to the Prime Minister's question in respect of each increase, in detail, is as follows.

CHARGES AFFECTING RESIDENTIAL USERS

The following proposed increases, in the first tranche, affect residential users:

- 1 connexion charges for exchange service, where the maximum would go up from £45 to £55, and
- 2 connexion charges for extensions and for a plug and socket arrangement, which would increase from £8 to £12 (about half the increase warranted by costs).

POUNC have been aware that the increases in connexion charges made in May 1975 were insufficient to cover costs on many items even during 1975/6. Since then the Post Office have kept POUNC informed and POUNC acknowledge that it is reasonable for customers to pay the cost of connecting them to the system at the outset, and to recover the capital cost of the equipment and maintenance expenditure by means of rental. POUNC was advised informally

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some time ago by the Post Office to expect tariff proposals of the scale now put forward.

In addition to the desirability of covering costs incurred, there is a further important argument for increasing these connexion charges. In order to improve its contribution to the PSBR the Post Office has been at pains to cut out uneconomic investment. Low connexion charges encourage uneconomic expansion of the network and increasing them is the most effective means of rationing. Without this increase the Post Office reckon that the waiting list for new connexions would have to increase by 200,000 next year. The Post Office have pointed out that local managers are able to apply local discounts where unused network makes the encouragement of new connexions economic.

No increase in connexion charges is proposed for items designed exclusively for use by the disabled.

3 Minor Service Charges:

- i) The hourly charge for non-standard installations: the Post Office propose an average increase of 79%. (The only increases above this level relate to work done at customers' request on Sundays and bank holidays.) After discussion with the Department the Post Office have decided to make a partial concession in respect of remote (eg rural) locations.
- ii) Disconnexion at customer's request: the Post Office propose to increase this charge from £1 to £2. (The economic cost is £4.50.)
- iii) Reconnexion of a user who has been disconnected for non-payment of bills: the Post Office propose to increase this charge from £3 to £6, but have agreed, after discussion with the Department, to delay its implementation until April in view of the large numbers of users who may find difficulty in paying the larger bills which will result from the billing dispute.

CHARGES AFFECTING BUSINESS USERS

The other charges in the first tranche (apart from coinboxes) are for items used practically exclusively by businesses. They fall into two categories: connexions and rentals.

The Post Office would have wished to increase all rentals to the full economic level now. They recognise, however, that this would be unfair to users. The only rental increase proposed in the first tranche is one on private circuits: an increase of up to

/50%.....



CONFIDENTIAL

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50% on short distance circuits and up to 8% on long distance ones. This would still leave these charges well below economic levels. Communications managers are aware of the position and increases of up to 50% will be within their expectations. All customers will be advised of the economic rental and that further price rises will be needed so that they can plan for the future on a basis reflecting actual costs incurred by the Post Office and so induce a sound economic balance between development of the public and private networks. This is important to avoid resources being unnecessarily committed to uneconomic investment and consequently to reduce calls on the PSBR.

In the case of connexion charges on apparatus, telex and private circuits, the Post Office feel there is more justification than in the case of existing services to a customer for moving, immediately, closer to economic charges. Even so, the Post Office are mitigating the increases to some extent.

COINBOXES

On coinboxes, the Prime Minister was content to let the Post Office refer the increases to POUNC but wanted the Department first to cross-examine the Post Office as to why it should take 20 weeks preparation to change the coinboxes.

!!
The Post Office explain that the conversion involves modification to the mechanism of 356,000 coinboxes as well as adjustments at 6,300 local telephone exchanges. The conversion itself will take at least three weeks. Consultation with Unions is needed on the detailed arrangements, such as training, and cannot be started before POUNC has been approached. The training of the 3,500 men required will span 16 weeks allowing for preparation, training of instructors, and the phased release of staff from their normal work in manageable numbers, to avoid disrupting day to day operations.

The Prime Minister wondered if it might be possible to put up the charges in the 77,000 public call boxes on 2 January leaving the remaining 279,000 rented by private customers to be converted in due course. We put that idea to the Post Office. Unfortunately both types of call boxes use the same equipment in the exchange to permit calls to be set up. Duplication of the equipment in 6,300 local telephone exchanges to permit lower charges for calls from rental coinboxes, apart from an additional expense of several million pounds would take two years to accomplish. It is not therefore a feasible means of shortening the time required to implement 5p charging from public call boxes.

CONCLUSION

We hope that, in the light of these explanations and of the concessions we have extracted from the Post Office for residential users on items 3(i) and (iii) above, the Prime Minister will agree that the Post Office should now approach POUNC on the first tranche. The approach would be in confidence, but of course there

/can...



CONFIDENTIAL

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can ~~not~~ be no assurance that it would not leak.

The Post Office remain very concerned to put the second tranche increases to POUNC as well. They consider that unless this can be done within the next two or three weeks, it would not be possible to implement rental increases in a second tranche by 1 January and it would further aggravate the serious problem we already have over this year's cash limit. We have nevertheless made it clear to them that this tranche must await the further discussions between the Secretary of State and Sir William Barlow. This should just give Ministers time to consider the case for a second tranche for any announcement on it to be made before the period October to January when the Post Office expect the strongest press comment and public reaction to the billing recovery programme to occur.

I am copying this letter to Alistair Pirie, Tom Harris and Martin Vile.

*Yours sincerely,
Pete*

PETER STREDDER
Private Secretary

24 AUG 1979

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TELECOMMUNICATIONS

FINANCIAL RESULTS BY SERVICES

SERVICE	1978/79		
	Income	Profit/ (loss)	Return on capital
	£m	£m	%
Inland			
Rentals:			
business	141.9	(36.1)	(0.8)
residence	450.3	(106.0)	(0.4)
apparatus	270.6	(29.6)	1.7
	862.8	(171.7)	-
Subscribers' calls	1500.5	428.9	11.0
Call Office receipts	66.2	(38.8)	(7.7)
Private circuits	92.0	(13.7)	1.1
Telegrams	7.7	(11.9)	(89.8)
Telex	45.7	(14.3)	(1.0)
Agency and miscellaneous items	81.1	1.1	-
	2656.0	179.6	5.6
External			
Telephone services	410.6	136.2	27.4
Telegraph services	177.3	31.3	31.7
Total	3243.9	347.1	6.9

Proposals

Yields		
1979-80	1980-81	1981-82
Accounts	Cash	Accounts

FIRST STAGE
 From 15 October 1979
 Connection Charges:
 - Exchange Lines
 - Apparatus
 - Private Circuits
 - Telex
 Minor Service Charges

£m	£m	£m
2.5	1.8	7
1.6	1.1	9
0.5	0.5	1.3
Small	Small	Small
1.7	1.0	5

From 15 November 1979
 Rentals:
 - Private Circuits
 (2 months notice to customers)

£m	£m	£m
0.4	1.8	19.3

From 2 January 1980
 Colnbox Charges:
 - Local calls
 - Trunk calls

£m	£m	£m
7.5	5.0	40

TOTAL (ROUNDED)

14	11	81
----	----	----

SECOND STAGE
 From 1 January 1980
 Rentals:
 - Exchange Lines
 - Apparatus
 - Telex
 Maritime Services
 Ordinary Call Charges

15.0	16.5	97
10.0	10.5	61
2.3	1.7	9
0.3	-	1.7
34.0	7.0	150

TOTAL (ROUNDED)

62	36	319
76	47	400

SECOND STAGE
 BOTH STAGES

Business Excl from £39 to £45.
 Res Excl from £33 to £38.
 Res Shared from £29 to £34.
 Max increase 50%
 Increases of 25-30%
 Increases of 20-25% on telephone,
 telex and telegram services
 Details to be determined

From 2p for 2 mins to 5p for 3 mins
 Same time for 5p as currently
 allowed from ordinary line for
 unit fee

+15%
 +17%
 +29%
 +26%
 -
 +8%
 +8%
 +10%



From the Secretary of State

CONFIDENTIAL

Peter Stredder Esq
Private Secretary
Secretary of State for Industry
Ashdown House
123 Victoria Street
SW1

24 August 1979

Dear Peter

THE POST OFFICE

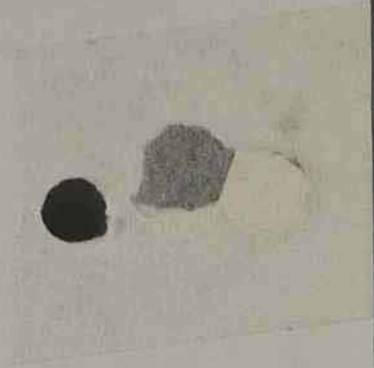
My Secretary of State has seen your letter of 17 August to Nick Sanders and has made the following comments on the Post Office's proposals.

He believes that POUNC should be given the details of all the planned increases in charges - the Council will need to have this information in order to form a considered judgement of the Post Office's proposals.

He also thinks it vital that the Post Office should not be allowed to exceed their overall cash limit for 1979/80, but thinks it even more important that the postal business should be held this year to their 2% financial target, because only in this way can we avoid the possibility that the revenue from the telecommunications business might be used to pay for the inefficiencies and wage claims of the postal workers. He accepts that this may mean further postal tariff increases, but believes that this could help in the Government's efforts to reform the Post Office.

I am copying this letter to Nick Sanders (No 10), Alistair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

Yours sincerely
J M D Symes
J M D SYMES
Private Secretary



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24 AUG 1979



Post +
✓ MHP Telecomms

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

23 August 1979

Peter Stredder Esq
Private Secretary to the
Secretary of State for Industry
Ashdown House
123 Victoria Street
London
SW1

FUTURE OF THE POST OFFICE

I refer to your letter of 14 August to Tim Lankester about your Secretary of State's announcement on the splitting of the Post Office into two corporations. The Paymaster General is content with your proposals to make this announcement on Wednesday 12 September.

I am copying this letter to the Private Secretaries to the Prime Minister, the Home Secretary, the Chancellor of the Exchequer and Sir John Hunt.

(Miss) TONI ROBSON
Assistant Private Secretary



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PFO
HMT
AD

MB

10 DOWNING STREET

From the Private Secretary

22 August 1979

Thank you for your letter of 14 August (addressed to Tim Lankester) about your Secretary of State's proposed announcement and Press Conference on Wednesday 12 September announcing the Government's decision to split the Post Office into two corporations, and to begin consultation on the liberalisation of the Post Office's telecommunications monopoly.

The Prime Minister is content with these arrangements.

I am sending copies of this letter to Tony Butler (Home Office), Martin Hall (HM Treasury), Richard Prescott (Paymaster General's Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

SP

Peter Stredder, Esq.,
Department of Industry.



File 216

10 DOWNING STREET

From the Private Secretary

22 August 1979

As you know, the Prime Minister has seen your letter of 17 August (to Nick Sanders) about proposals for Post Office tariff increases. You also spoke to the Prime Minister on the telephone about this earlier in the week.

I am writing to confirm that the Prime Minister was not convinced by the case set out in your letter that the proposals in question should be submitted to POUNC, without Ministers seeing a more substantive justification for the increases. In addition, the Prime Minister would wish to see some explanation of why 20 weeks would be required to alter coin boxes in connection with the proposed new tariffs. In general, she felt that the Post Office should be required to provide much more solid justification on such points before Ministers approve the steps proposed.

I understand that you have a reply in the pipeline to these enquiries, and I look forward to receiving that shortly.

I am sending copies of this letter to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and to Martin Vile (Cabinet Office).

K.A.P.

M. A. PATTISON

Peter Stredder Esq
Department of Industry

CONFIDENTIAL



Await Do / reply
7/8/79

Post + Telecom

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP
The Secretary of State for Industry
The Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

20 August 1979

Dear Secretary of State

THE POST OFFICE

I find the situation you describe in your minute of 13 August to the Prime Minister very distressing. I do not think the facts of the pay dispute between the Post Office and their unions have been got across to the public; some 139 staff who should be operating the computers will have cost the Post Office £70 million unnecessary interest charges which will be passed on to every single telephone user.

The Post Office has become an unpopular institution with the general public. In such circumstances I have to ask when the management of a nationalised industry is going to behave like any normal body faced with a crucial shutdown of a vital part of its activities. Why has the work not been sub-contracted to a computer agency or other PO staff assigned to do the work? How can we really allow 139 people to cost the public £70 million? Are we justified in always avoiding these issues to save the likelihood of a major strike? I cannot help but noticing in the past 100 days how the central public sector appears to live in real fear of the Trades Unions and is capitulating when it should stand firm.

The cost of the pay settlements on the postal side also needs to be brought home to the public: I hope that Sir William Barlow can be

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From the Secretary of State

disabused of cross-subsidising postal losses from telecommunications revenue at the very time when the two businesses will be separated explicitly to prevent such a possibility.

I am copying this letter to the Prime Minister, the Chief Secretary, the Secretary of State for Employment and Sir John Hunt.

Yours sincerely

J. Symes

pp

JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)

20 AUG 1979



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Original filed ✓ MAP
Nat. Ind. - Policy towards

MB Copy to
10
Post Office File pl.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Ashdown House
123 Victoria Street
LONDON
SW1

17 August 1979

NATIONALISED INDUSTRY PAY QUESTIONS

On 13 August you wrote to the Chancellor, who is now away, suggesting that early guidance should be given to the nationalised industries on how we wish to deal with individual pay negotiations.

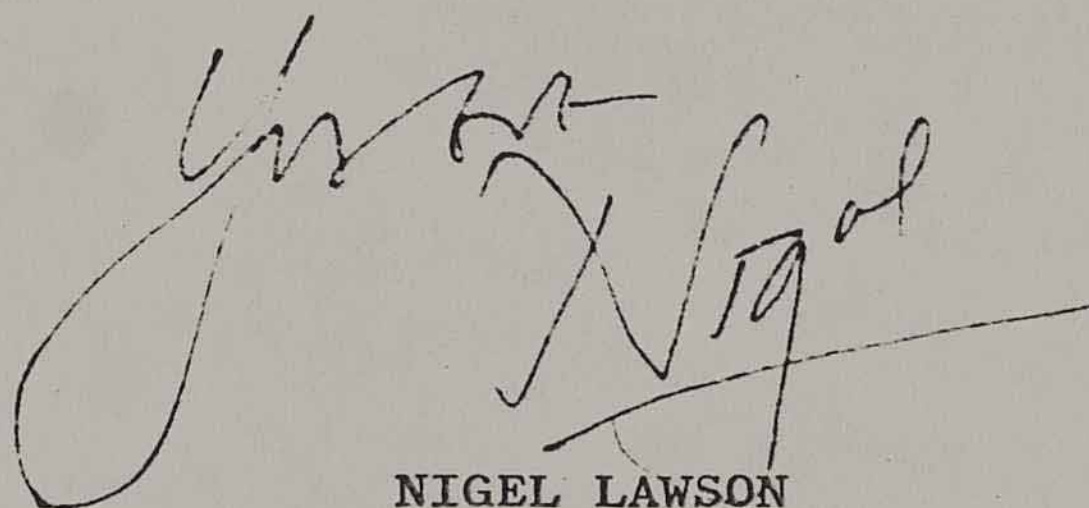
As you make clear in your letter the problem is not an easy one because of the need to strike a balance between different aspects of our policies. It seems to me that your proposals will therefore need careful consideration by colleagues and I would like to suggest that a suitable means of doing this would be to take account of them in the paper which is being prepared for the Chancellor on nationalised industry cash limits and performance targets and will also cover an improved information system for the nationalised industries. The intention is that this should be taken by E Committee on 11 September following up the meeting which discussed your paper on Pay Prices & Efficiency in Nationalised Industries.

I recognise that this would not allow us to act as swiftly as you suggest but it would allow your proposals to be tied in with our approach to nationalised industries cash limits. In the meantime the Chancellor has told the nationalised industries' Chairman (at his meeting with them on 23 July) that the Government are anxious to be kept in touch with the industries thinking and pay negotiations. Subject to correction from other colleagues, the timing of major nationalised industry settlements gives us scope for a little delay before giving any guidance.

In the meantime, it would be helpful to have the views of our colleagues sponsoring other nationalised industries on your proposals.

Incidentally, I have just seen your minute of 13 August to the Prime Minister about the Post Office. I support what you say. I cannot stress too strongly the importance of the Post Office being held to their cash limit this year not only from the point of view of maintaining financial discipline in the postal business but also because of the risk of undermining the cash limits system generally if we condone a breach in this instance. It also seems to me important to bring home to the unions involved in the dispute any consequences for employment of their actions: a point which you have emphasised in other contexts.

I am copying this letter to the Prime Minister, members of E Committee, the Secretaries of State for Scotland, Northern Ireland and Wales, the Minister of Transport and Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', with a large, sweeping flourish extending to the left. The signature is written over a horizontal line.

NIGEL LAWSON



① We just said refer them to POUNC ; 1

I don't believe the requested increases are justified in any way

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

[Handwritten signature]

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

17 August 1979

PS/ Secretary of State for Industry

② Refer referring to
boxes will remain why
if letter 20 weeks

PRIME MINISTER

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

do change them. Here is some fully detailed information
I don't believe it should. from the Post Office - at last. The
And the P.O. should not- detailed proposals are at A, background at B,
for ~~business~~ without- and a note on cashflow measures at C.
Are you contact with the proposed split in the
references
to POUNC?
MS

THE POST OFFICE

Thank you for your letter of 15 August. We are grateful for the Prime Minister's agreement that POUNC should be asked immediately to consider proposals for some of the telecommunications tariff increases put forward by the Post Office. It would be helpful, however, if you could seek some further clarification of the precise proposals which should go forward to POUNC.

... The Post Office's proposals fall into two tranches set out in the attached table. On the first tranche they need to approach POUNC immediately if the increases are to take effect on the dates indicated and so produce the yield this year which the Post Office needs to meet the telecommunications share of its cash limit. They include connection charges for telephone lines, apparatus, private circuits and telex; rentals on private circuits; and coinbox charges. As the enclosed note by the Post Office explains, all these charges (particularly coinboxes) have long been below economic cost and are subsidised by other services. Although the coinbox charges would only change on 2 January, the preparation involved takes some 20 weeks. It is therefore essential that POUNC (and the unions as explained in the Post Office note) be consulted immediately if the change is to take effect in time.

Consultations on the second tranche could be put off much more readily without jeopardising their proposed implementation date of 1 January. This tranche, all the parts of which hang together, includes the proposed increases in rentals on residential and business telephone lines, rentals on telex and apparatus and the ordinary call charges. It is particularly the last of these which one would have wished to avoid increasing if at all possible but which raise a very substantial amount of revenue (£150 million in a year).

There is some risk in not putting the second tranche to POUNC now.

/Although...



CONFIDENTIAL

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Although the Secretary of State has put to Sir William Barlow very strongly the need for economies, we cannot be sure of the outcome. If in the event we were forced to the conclusion that the cash limit situation this year could only be improved by bringing forward certain tariff increases, we would not know this until middle or late September; by then it would be too late to complete consultations with POUNC in time for implementation significantly earlier than 1 January. The chance would have gone.

On the other hand it has to be recognised that there is a strong possibility of the proposals leaking if put to POUNC; it would then be more embarrassing to change them. They are bound to be controversial at a time when residential users will be suffering both the bunching of bills and the VAT increases on them.

If for these reasons the Prime Minister wishes to hold off the approach to POUNC on the major residential user items until Sir William Barlow's review of the situation has been considered in September, we would suggest that the Post Office proceed to POUNC now on the whole of the first tranche (including coinboxes, for the reasons stated in the Post Office's note) but not on any of the second tranche (since these items are closely inter-related).

I should be grateful to know whether the Prime Minister agrees.

I am copying this letter to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office). A note by the Post Office on how they are dealing with the telephone billing backlog is also enclosed, as requested by the Prime Minister.

*Yours sincerely,
Peter*

PETER STREDDER
Private Secretary

17 AUG 1969

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PROPOSED TARIFF INCREASES

Proposals	Average % Increase	Yields			
		1979-80 Accounts	Cash	1981 Accounts	
		£m	£m	£m	
FIRST STAGE					
<u>From 15 October 1979</u>					
Connection Charges:					
- Exchange Lines	New Customers £45 to £55				
- Apparatus	Max increase 120%	2.5	1.8	7	
- Private Circuits	Max increase 100%	1.6	1.1	9	
- Telex	Uniform increase 20%	0.5	0.5	1.3	
Minor Service Charges	Up to 100% increases on loss making items	Small	Small	Small	
		1.7	1.0	5	
<u>From 15 November 1979</u>					
Rentals:					
- Private Circuits	Short distance; max increase 50% ...	} +19%	1.8	19.3	
(2 months notice to customers)	Long distance; up to +8%				
		0.4			
<u>From 2 January 1980</u>					
Coinbox Charges:					
- Local calls	From 2p for 2 mins to 5p for 3 mins	} local + trunk +30%	5.0	40	
- Trunk calls	Same time for 5p as currently allowed from ordinary line for unit fee				
		7.5			
TOTAL (ROUNDED)		+2%	14	11	81
SECOND STAGE					
<u>From 1 January 1980</u>					
Rentals:					
- Exchange Lines	Business Excl from £39 to £45	} +15%	16.5	97	
	Res Excl from £33 to £38				
	Res Shared from £29 to £34	+17%			
- Apparatus	Max increase 50%	+29%	10.5	61	
- Telex	Increases of 25-30%	+26%	1.7	9	
Maritime Services	Increases of 20-25% on telephone, telex and telegram services	-	-	1.7	
Ordinary Call Charges	Details to be determined	+8%	7.0	150	
			34.0		
TOTAL (ROUNDED)		+8%	62	36	319
SECOND STAGE					
BOTH STAGES		+10%	76	47	400

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TELEPHONE CHARGES

Coinbox Charges

- 1 There are 356,000 telephones with coinboxes, of which 77,000 are in public call offices, and 279,000 are rented by customers, mainly for public use on private premises. The only revenue from public call offices is the money collected through the coinbox, less VAT. On rented coinboxes, the Post Office charges rent for the exchange line and coinbox and calls are charged at coinbox rates less a 30% rebate (handling allowance) for the renter after VAT. The charges to users are the same for calls from a public call office or a rented coinbox.
- 2 In 1978-79, expenditure on public call offices exceeded income of £66 million by £39 million, a loss on turnover of 59% with return on capital at replacement costs of -7.7%. We also lost £6 million on the calls element of rented coinboxes alone. The total loss against income received through coinboxes was therefore £45 million. This figure is likely to exceed £60 million in 1979-80.
- 3 Calls from ordinary telephones are based on a 3p unit which with 15% VAT (from 1 November) amounts to 3.45p. When allowance is made for the rental, a residential customer is paying, on average, about 6p per call unit. On the other hand, coinbox calls are based on a 2p unit inclusive of VAT. During the working day, the call charge alone for many calls from an ordinary telephone is greater than from a coinbox, particularly in the peak rate period (9.0 am to 1.0 pm on weekdays) when, at 15% VAT, the ordinary rate is 72% above the coinbox rate for local and long distance trunk calls. This situation has been the subject of many complaints. It does seem indefensible that calls from coinboxes which make a large loss should be subsidised by the ordinary line renter when calls are often cheaper than from his own telephone.
- 4 The Post Office proposes to offset the increase in part by increasing the time allowed, for example local calls would be 3 minutes for 5p instead of 2 minutes for 2p. Overall the increase in revenue on coinbox calls would be only 30% in a full year.
- 5 There is no practicable alternative to changing from 2p to 5p as the minimum charge, as the coinbox is designed to operate on a single coin. At 2p, the UK coinbox charge is the lowest in Europe, and at 5p the UK rate would be similar to that in France and West Germany at current exchange rates, and still in the lower half of the European range of 2½p (Denmark) to 11½p (Switzerland).

IN STRICTEST CONFIDENCE

6 The net effect of the rate changes would be to improve coinbox income by £40 million in a full year. The calls element of rented coinboxes would be profitable with a return of about 5%. But public call offices would still show a loss of about £45 million per annum.

7 The conversion involves modification to the mechanism at every coinbox as well as adjustments at every telephone exchange. The task will take at least three weeks. Consultation with Unions is needed on the detailed arrangements, such as training. The training alone will span 16 weeks allowing for preparation, training of instructors, and the release of staff from their normal work in manageable numbers, having regard to the need to maintain day to day operations. Consultation will take several weeks and the conversion work could not be started in less than 20 weeks. This requires that the subject be formally broached with Unions now if we are to achieve January 1980 implementation. The conversion needs to be completed within the shortest period so that charges are on the same basis everywhere as soon as possible.

Proposals from Mid-October

3 8 Our proposal that the connection charges for telephone exchange lines, apparatus, telex and private circuits should be increased from mid-October is the earliest practicable means of increasing income by tariff adjustments. Each of the proposed increases, covering many different items, is designed to bring the connection charge nearer to costs incurred at the time of installation. These costs include installation labour and other expenditure eg travelling costs, which could not be recovered if the customer no longer required service. In several cases the proposed charges fall short of economic rates because we are limiting increases to about 100%. Most of the charges have been unchanged for over 4 years. In the case of exchange connections, where we propose an additional £10 on the maximum charge, the increase is equivalent to about one-third of the increase in RPI since the last increase in May 1975.

9 For each of the items we also propose rental increases from 1 January, but to avoid a rush of orders in an attempt to secure service at advantageous rates, we wish to introduce the higher connection charges at the earliest practicable date. The proposal to do so from 15 October allows for advance preparation, and discussions with POUNC.

10 We also propose to proceed, from about mid-November, with notification to renters of shorter distance and some other private circuits of rental increases on annual bills rendered after February 1980. This notification would be in accordance with the two months notice required under Agreements. These increases are also necessary to correct significant anomalies between the charges for calls over the public network, and private circuit rentals, particularly because they were not adjusted in 1975 to the same extent as were call charges. The proposed maximum increase of 50% will fall a long way short of the economic rate, and we intend to advise customers of the level to which tariffs should be adjusted in stages.

IN STRICTEST CONFIDENCE

IN STRICTEST CONFIDENCE

POST OFFICE

TELEPHONE BILLING BACKLOG

The preparation of telephone bills by computer was stopped four months ago on 10 April by selective strike actions over pay by the Society of Civil and Public Servants (SCPS), and by similiar action a few days later by the Civil and Public Services Association (CPSA). Indications are that the CPSA will shortly accept the Post Office's latest pay offer; the position of the SCPS is still uncertain.

- 2 To date, some 21 million telephone bills, with an estimated value of £960 million have not been issued. All customers are one quarterly bill in arrear, and a third of customers two quarterly bills in arrear.
- 3 To mitigate the adverse effect of the strike actions on cash flow, the Post Office started manual billing of their large usage customers, virtually all Business, from 30 April. Currently over 35% of normal income is being manually billed; and action is being taken to increase this billing rate. £210 million cash has been collected; customers are taking about a month's credit after receiving their manual bills.
- 4 Small usage telephone customers, mainly Residential, are being encouraged, through press advertising*, and TV and press briefing, to buy telephone stamps for saving towards their telephone bills. The £1 telephone stamp is now on sale again at all Post Offices (distribution of the stamps had been interrupted by the strike action). A new £5 telephone stamp will be introduced on 28 August at all Post Offices.
- 5 The Post Office had ready for testing at the start of the strike action a budget accounts facility under which customers could elect to make monthly payments through their bank accounts towards paying their telephone bills. This facility cannot be introduced before the computer billing backlog has been recovered. Had the facility been running at the start of the strike action, it could have continued to operate during the strike, benefiting Post Office cash flow. Advance payments by customers are accepted at telephone offices; customers offering payment at Post Offices are asked to buy telephone stamps.

* example attached.

Post Office: Telecommunications
16 August 1979

IN STRICTEST CONFIDENCE

YOUR PHONE BILL.

Owing to industrial action we've been unable to send out telephone bills to most of you for about 4 months now.

Unfortunately this will mean that your next bill, when you get it, will cover a longer period than usual and will be at least double-sized. We're very sorry about any inconvenience this may cause you.

The old 8% rate of VAT will be applied to charges for all telephone services supplied up to the time of the tax change on 18 June 1979, whenever the bill is issued.

You'll find our £1 telephone stamps a great help towards saving for this next bill. You can get them from Post Offices.

If you send an advance payment to your local Telephone Area Office please remember to quote your telephone number.

Post Office Telecommunications

CONFIDENTIAL

File TUP



10 DOWNING STREET

From the Private Secretary

15 August 1979

BF 21.8.79

THE POST OFFICE

line to take
The Prime Minister has seen your Secretary of State's minute to her of 13 August. She welcomes his action in asking Sir William Barlow urgently to re-examine the question of telephone charges. While she accepts that POUNC should be asked to consider immediately proposals for increases in other telecommunications charges and should be told about the general situation of the Post Office, in her view it might be better to defer making specific proposals to them on telephone charges until Sir William Barlow's review has been considered.

She is also concerned about the steps that are being taken to ease the burden of the heavy telephone bills which will fall due because of current industrial action. She wonders whether any steps are being taken to offset the Post Office's current loss of income by enabling consumers to make monthly payments or to anticipate the bills in other ways. Perhaps you could let me have a note about this.

Copies of this letter go to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

N. J. SANDERS

88

A.A. Duguid, Esq.,
Department of Industry.

CONFIDENTIAL



cc Mr Wolfson
Mr Gow
Press Office

PRIME MINISTER 2

To see. This is the week

DEPARTMENT OF INDUSTRY of the Rhodesia
ASHDOWN HOUSE conference.
123 VICTORIA STREET Contact?
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

MJS
15/8

PS/ Secretary of State for Industry

14 August 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Dear Tim,

Yes. ans.

FUTURE OF THE POST OFFICE

As you know, it had been the intention that my Secretary of State should make a Parliamentary Statement before the recess announcing the Government's decision to split the Post Office into two corporations and to begin consultations on the liberalisation of the Post Office's telecommunications monopoly. In the event, pressure on Parliamentary time prevented this Statement and it was agreed that the announcement should be made in the form of a press notice during the Recess.

You may therefore like to know that my Secretary of State now has it in mind to make this announcement and hold a press conference on Wednesday 12 September (ie the week following the TUC Conference); I attach a draft of the press notice. I will confirm this provisional date nearer the time.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Paymaster General and to Sir John Hunt.

*Yours sincerely,
Pete*

PETER STREDDER
Private Secretary



DRAFT PRESS RELEASE

Sir Keith Joseph today announced decisions about the future of the Post Office. The Government intend to split the Post Office into two corporations, one for posts and giro, and the other for telecommunications. The Government also propose to begin consultations with a view to the early introduction of arrangements for liberalising the operation of the Post Office's telecommunications monopoly.

In a statement today the Secretary of State for Industry, Sir Keith Joseph, said:

"The Carter Committee recommended in July 1977 that the Post Office should be divided into two independent Corporations, one for Posts and Giro and a second for Telecommunications. I have now been able to consult the Chairman of the Post Office, the Post Office Users' National Council and other interested parties including the Trade Unions. There is a broad measure of support for the proposed division, although half of the Trade Unions immediately concerned would prefer a single Corporation to be retained. The Government have come to the conclusion that the balance of advantage is strongly in favour of implementing the Carter Committee's recommendation.

The two main businesses are entirely different and each needs its own independent Board free to concentrate on its own problems and opportunities. The Government agree that separation is an essential step towards improving the



effectiveness of both businesses. Legislation will be required to complete the separation of the two corporations and I will present this to Parliament in due course. Meanwhile, I shall ask the Post Office Chairman to set in hand preparations for the separation, so that transition to the new structure can be as smooth as possible.

The Carter Committee also made clear in their report that they were not convinced that the balance of advantage to the community favoured the continuation of the existing boundaries to the Post Office's telecommunications monopoly. This is a view which the Government share. The Post Office will retain responsibility for providing the main telecommunications network, but we want to see greater freedom in the licensing of added value services on telecommunications circuits. Subject to safeguarding the technical integrity of the system, we also believe that it is in the national interest to provide greater scope for competition in the provisions of apparatus for attachment to the network.

I am therefore beginning consultations with the Post Office, the manufacturing industry, the Users' Council, the Trade Unions and others concerned with a view to modifying the Post Office's present exclusive rights in these areas. It will be my intention to announce detailed proposals for new and more competitive arrangements before the end of the year".

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15 AUG 1979

PRIME MINISTER

Sir Keith Joseph has now sent you the attached minute (Flag A) about the troubles in the Post Office. You commented earlier (Flag B) that you were reluctant to agree to the proposed increase in telephone charges at this stage. Sir Keith now says that a major increase cannot be avoided and that the telecommunications business have absorbed a large proportion of their increased costs by "a variety of economies".

He also draws attention to the financial effects of pay settlements on the postal side, which are threatening the Post Office's cash limit for this year.

Finally, he suggests that POUNC should be consulted in confidence about the telecommunications price proposals at once. I have little doubt that any such consultation will result in an early leak. The Cabinet Office (Flag C) suggest that you might tell Sir Keith Joseph that you wonder whether it might not be better to defer putting specific proposals on telephone charges to POUNC until Sir William Barlow's next report early in September. May I reply along the lines suggested in paragraph 2 of the advice from the Cabinet Office?

NJS

① Although some portion of the increased costs are due to billing delays - I see no proposal for monthly payments on account of the kind that can be done for rates or gas bills. I really think we should ask whether such payments can be made now.

14 August 1979

② I agree with para 2 of the Cabinet Office minute.
out.

MR M A PATTISON


c Mr Hilton
Mr Downey
Mr Mountfield O/R
Mr Whybrow

I 02376

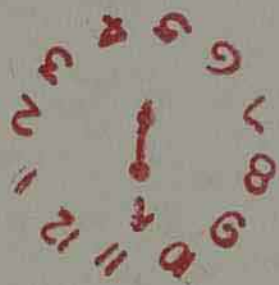
THE POST OFFICE

Sir Keith Joseph's minute of 13 August to the Prime Minister sets out the reasons why he thinks telephone and other telecommunication tariff increases are necessary, quite apart from meeting the substantial interest costs of the billing dispute. But as he has asked Sir William Barlow to examine the question of phone charge increases, an obvious possibility that needs to be considered is whether any reference to the Post Office Users National Council (POUNC) is essential before that re-examination has been carried out. The problem, I understand, is this: telex and some other commercial telecommunication charges are planned to be increased from October. Specific proposals on these will not be affected by Sir William's review, but if there is any delay in referring them to POUNC, it will not be possible to implement them at the planned time and revenue will be lost. The telephone charge/^{increases} - which will be the subject of Sir William's review - are intended to be introduced in January, but the Secretary of State for Industry warns that it may be necessary to bring this forward. Clearly POUNC must be given time to consider these proposals (as well as those planned for introduction in October) and there would be advantages in acquainting them from the start with the general financial problems facing the Post Office. It is however open to question whether specific proposals on phone tariffs should be put to POUNC in advance of Sir William's report, especially in view of the risk of the proposals leaking - a risk which Sir Keith himself does not discount.

2. I suggest therefore that the Prime Minister might say in reply to Sir Keith Joseph that she welcomes his action in asking Sir William Barlow urgently to re-examine the question of telephone charges; and that, while she accepts that POUNC should be asked immediately to consider proposals for increases in other telecommunications charges and be told about the general situation of the Post Office, she wonders whether it might not be better to defer making specific proposals on phone charges until Sir William Barlow's review has been considered.


N B W THOMPSON

14 August 1979



14 AUG 1979





CONFIDENTIAL

PRIME MINISTER

THE POST OFFICE

We spoke on Friday about the situation in the Post Office and I have also now seen the comments in your Private Secretary's letter of 10 August. There are three closely related issues involved.

Telephone billing dispute

The Post Office are working on a formula which they hope will get the computer staff back to work, despite their recent adverse ballot, without the offer of more cash. The clerical staff, who are also involved, are currently balloting and the indications are that they will accept their offer. I therefore do not expect any major confrontation.

However, even if the dispute is settled in the next few weeks as I hope it will, the billing backlog will continue to rise until December. The Post Office are taking vigorous steps to ensure that the borrowing this entails can be kept within their statutory borrowing limit. The cost in interest however will be about £70 million this year and this has been the main reason for bringing forward the telephone tariff package from next financial year to 1 January. I agree with you that it is unfortunate that these increases should be hitting consumers just when they are

/facing....



CONFIDENTIAL

2.

facing bills swollen by the delay. But I also believe it is important to bring home to the public quickly what the cost of such industrial action is so as to bring more pressure of public opinion to bear on union membership. In fact, for reasons I shall go on to later in this minute, I believe it could become necessary to make the increases even earlier, or larger.

Reasons for the telephone increases

The last Government set the Post Office a performance aim of reducing real unit costs in telecommunications by 5% a year. The Post Office have so far been achieving this aim and a bit over. It does however entail that when inflation exceeds 5% some tariff increases become necessary unless productivity gains over and above those required for the 5% aim can be achieved. In fact this year the telecommunications business have found themselves faced with costs of £158 million more than they had reckoned on in their annual plan (including the £70 million which, as I have said, is due to interest payments ~~resulting~~ resulting from the billing delay). Of this total they are passing on only ~~£47 million~~ £47 million to consumers in increased tariffs this year. The remaining £111 million is being absorbed by a variety of economies.

So far as 1980/81 is concerned, there was never any doubt that a major increase would be necessary. Increases were staved off by the last Government, first by accepting the ingenious solution the Post Office devised to the pre-Corporation pension fund deficiency, which had been a serious burden on telecommunications, and then by reducing the financial target from 6% to 5%. Any

/further.....



CONFIDENTIAL

3.

further measures of this kind would have unacceptable consequences for the PSBR.

Most of the increases proposed have in fact a sound commercial justification. For example, coinbox calls can be made at the moment more cheaply than subscriber calls and the adjustment is long overdue; rental charges have not been at an economic level for some years; and most of the other services whose charges are being increased have been subsidised by other services. I know, however, that the Chairman himself was very anxious to avoid subscriber call charge increases and has looked for every possible means of finding the £150 million involved in other ways. I am asking him to continue to look at the problem. The Chairman and I are at one in trying to squeeze more productivity from management and workforce. But this will take time. Meanwhile it is essential that the Post Office should achieve the ambitious PSBR contribution which we agreed in Cabinet for 1980/81, and more immediately that they should meet their cash limit this year.

Postal deficit in 1979/80

This brings me to the serious problem in the postal business, about which I have been speaking to Sir William Barlow again this afternoon. Despite the postal increases coming into effect this month, posts expect, on present forecasts, to be up to £30 million in the red this year; this would put them £62 million short of their financial target and make the Post Office £100 million short of its cash limit. While about £13 million of this deficit is due to the Budget (VAT, fuel tax, etc), and there are also

/certain....



CONFIDENTIAL

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certain substantial unexpected changes in working capital requirements which affect the cash limit outcome, the bulk of the deficit is due to pay settlements unjustified by productivity, which were not taken into account when the Post Office were deciding on the size of the postage increases required. I have told Sir William Barlow that this is intolerable. But there can be no doubt that we face either a major showdown with the UPW or additional tariff increases, either in posts or telecommunications, if there is to be any hope of holding the cash limit this year.

Conclusions for telecommunications tariff increases

Sir William Barlow will therefore be reporting to me again with proposals for improving the overall situation early in September. In the meantime, however, I think the Post Office must acquaint the Users' Council with recent developments and put the telecommunications tariff proposals to them in confidence so that, subject to any modification in the light of the Chairman's further report, the increases can be proceeded with promptly and not be delayed unnecessarily by the statutory requirement to consult POUNC. (The Chairman hopes that the consultations with POUNC can be carried out without publicity; we cannot, of course, be sure of this).

With your agreement, and that of colleagues, I propose therefore that the Post Office be given immediately the go-ahead to consult POUNC without any commitment from Government as yet as to the size of the total package required. We can take a final view on that when we have heard the views of POUNC and have Sir William Barlow's

/further....



CONFIDENTIAL

5.

further proposals for improving the cash limit situation arising from the deficit in posts.

I am copying this minute to the Chief Secretary and the Secretary of State for Trade, and also to the Secretary of the Cabinet.

PJS

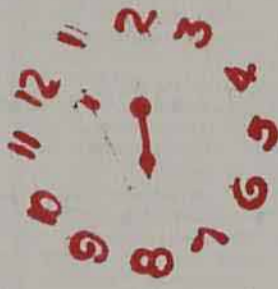
PP K J

13 August 1979

(approved by the Secretary of State and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street
London SW1

14 AUG 1979



SIR JOHN HUNT

cc Mr Wade Gery
Dr Thompson
Brig. Bishop
Mr Instone

CABINET OFFICE	
E	056
10 AUG 1979	
FILING INSTRUCTIONS	
FILE No.	

Mr Sanders PA NS
we spoke
10/10/79

TELEPHONES AND POSTAL SERVICES

Mr Wade Gery tells me that, at today's Cabinet, the Secretary of State for Industry spoke of the serious problem facing the telephone service. He said it was possible that the whole service would soon come to a halt, apart perhaps from the emergency 999 system.

2. I spoke to Mr Croft, the Under Secretary in the Department of Industry, who briefed Sir Keith Joseph for the meeting. There are two separate issues:

(a) Telephones. There is, as you know, a long standing dispute with the CPSA and the SPCS, as a result of which telephone billing has come to a stand still. There is a good chance of a successful settlement with the CPSA. The SPCS may be more difficult. The Post Office is now something like £180 million in the red as a result of this dispute. Sir Keith Joseph takes the personal line that any private sector company in this situation would go bankrupt. (Given the profitability of the telephone service, I don't believe this is true: but no matter). He thinks it is necessary to bring the issue to a head. He would like the Post Office to withdraw the clerical staff who are at present doing pay-roll work manually while the computer is closed, and transfer them to billing. The result would be that no one in the Post Office, on either side, would be paid. He believes that this would force the other unions to put pressure on the SPCS to settle quickly. The Post Office Management consider this is quite unrealistic. Their own line, given the chance of a deal with the CPSA, is to move in very softly with the SPCS, may be with a marginal improvement in the offer, and secure a quick settlement without repercussions.

(b) Postal Services. The problem here is quite a different one. The Postal Services are running well behind target for this year, and the pay settlement with the UPW will make it worse. The normal 'Joseph' response to this would be to demand offsetting savings, so as to bring the Postal service within its cash limit for the year. This is almost wholly impracticable: it would involve redundancies on such a scale as to wipe out the first-year benefit of any savings from a reduction in service. And it would provoke a head-on confrontation with the UPW.

Sir Keith Joseph is seeing Barlow on Monday, immediately before going on leave. I suggested to Croft that if he got Barlow to agree to any confrontational action, on either the Posts or the Telecoms side, he should report to the Prime Minister and warn the colleagues most concerned. But Croft does not think there will be any immediate crisis.

RM
P MOUNTFIELD
10 August 1979

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

10 August 1973

Telephone Charges

The Prime Minister has seen your Secretary of State's letter of 6 August to the Chief Secretary. She has commented that she is very reluctant to agree to the proposals set out in that letter. In her view, an increase of this size on top of the delayed billings would be very serious for domestic subscribers. The Prime Minister has also said that in her view there ought to be scope for greatly increased efficiency in the telecommunications business which might remove some of the need for an increase on the scale proposed.

Your Secretary of State will no doubt wish to send a further minute to the Prime Minister, taking account of these points.

I am copying this letter to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

N. J. SANDERS

A.A. Duguid, Esq.,
Department of Industry.

CONFIDENTIAL



From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1

10 August 1979

Dear Keith

POST OFFICE TELECOMMUNICATIONS: FINANCIAL TARGET AND TARIFF INCREASES

Thank you for sending me a copy of your letter of 6 August to John Biffen on these subjects.

I understand that the tariff increases you have proposed are no greater than those that would have been needed to meet the old 5% target and are not affected by the revaluation of the Post Office assets. On this understanding, and subject to the reactions from POUNC, I do not object to your proposal.

However, we can hardly be satisfied at cost increases in this business which necessitate price increases of as much as £400m. Although these price increases now seem inevitable they illustrate the urgency of your proposals to introduce as much competition as possible into this area and of the other structural changes you set out in your minute of 13 July.

I should add that I should be opposed to any move, such as you suggest might be made, to cross-subsidise postal wage settlements out of telecommunications profits. This would be inconsistent with our decision to separate the two services, and more importantly, would be contrary to our policy of ensuring that those who make excessive pay deals should accept responsibility for the consequences.

110 AUG 1979



From the Secretary of State

I think it would be useful to have a collective discussion soon on the principles of nationalised industry pricing. Our predecessors' White Paper on this (Cmd 7131) set out some general principles on Long Run Marginal Costs, a Required Rate of Return, prices and financial targets, and we need to decide whether we go along with these. Once we are clearer about the general principles we want to apply it will be easier to handle contentious individual cases. I should be interested to know John Biffen's views on this subject.

One aspect of this is that I am sure we must prevent nationalised industries from changing their accounting conventions, as the Post Office have done, in ways which invalidate the financial targets which the Government has set for them. Changes in these targets in mid-stream are at best likely to lead to misunderstanding: in the present case, for example, explaining the rise to 5½ per cent is not going to be easy; and I hope that it will be possible to separate the announcement of the increase in tariffs from that of the increase in the target.

Copies go to the recipients of your letter.

Yours ever

John

JOHN NOTT



TELEPHONE BILLS

Normal Billing procedures

In order to achieve an even work load for the billing staff and computers, the Post Office normally issue quarterly telephone bills each working day of the quarter. Every subscriber is assigned a fixed day of the quarter on which his bill is sent out.

2. Each quarterly telephone bill usually includes the rental charge for the quarter beginning the first day of the month in which the bill is issued (ie. a bill issued on 15 February includes the rental for 1 February-30 April) as well as the charges for the calls made since those included in the previous bill, up to the latest meter reading (taken a week before the date of the bill).

Proposals for Billing when the dispute is over

3. The Post Office had hoped that the dispute would end this month and had worked out the following billing proposals, which were summarised in the background note prepared by this Department for Prime Minister's Questions on 26 July. The majority of subscribers were intended to receive two bills covering 6 months' rental each, one 3 months after the other:

i. Subscribers who should have been billed in April

A minority of subscribers (some 20%) should have been billed during the latter half of April after the dispute had begun. Their bills were to be prepared first, and the sequence was to be:

September Bill covering:

rental for April-June (3 months) and calls for January-September (9 months).

Cost to average residential subscriber - about £51

January Bill covering:

rental for July-December (6 months) and calls for September-December (3 months)

Cost to average residential subscriber - about £32

April Bill covering:

rental for January-June (6 months) and calls for January-March (3 months)

Cost to average residential subscriber - about £32 (subject to increase in tariffs)



July Bill as normal

ii. Subscribers due for bills later than April

The majority of subscribers, namely the 80% whose bills were due in May and June, were to receive the following sequence of bills:

<u>First bill</u>	Bill covering:
(October or November)	6 months' rental; and 9 months' calls

Cost to average residential subscriber - about £60

<u>Second bill,</u> <u>3 months later</u>	Bill covering:
(January or February)	6 months' rental; and 3 months' calls

Cost to average residential subscriber - about £32

<u>Third bill,</u> <u>3 months later</u>	Bill as normal
(April or May)	

4. The Post Office say however that if the dispute is not resolved quickly they will have to review the proposed billing arrangements and may have to consider the possibility of reducing the 3 month period between bills until the outstanding charges are recouped.

Comparison with average quarterly bill

5. The Post Office estimate that the average residential subscriber's quarterly telephone bill in the financial year 1979/80 would have been £23. Since there have been no main tariff increases for 4 years, the average bills in 1977/78 and 1978/79 were also at about this level.

Department of Industry
7 August 1979

PHONE BILL PAY DEAL REJECTED

By **ROBERT BEDLOW**
Industrial Staff

THE 17-week strike by Post Office computer and administrative staff is to continue. A ballot of union members rejected a pay offer worth between 17 per cent and 21 per cent yesterday.

Last night the Post Office estimated that as a result telephone billing will not return to normal until at least next April or May and subscribers face heavy commitments.

The average bill is between £50 and £40 a quarter, so that when it is possible to send bills out the first will be for between £60 and £80, covering a six-month period. They will follow at two-monthly intervals. Subscribers are urged to buy £1 telephone savings stamps in the meantime. No relief will be given to those unable to pay.

Only a few bills are being sent out, at present, mainly to large companies and to subscribers who normally have heavy bills. These are being manually processed.

£1,000m due

It is estimated that £1,000 million is due from subscribers and the department has had to borrow from the postal business to ease the cash-flow situation.

Voting on the pay offer by the members of the Society of Civil and Public Servants was 1,967 in favour and 2,248 against, in spite of a recommendation by the union executive to accept.

The union sought increases of about 50 per cent, and was unhappy about "strings" attached to the offer, which promised a further 7 per cent pay in return for streamlining of the pay grades.

A ballot on any new offer will take two weeks.

CONFIDENTIAL



Post +
Telecomms

10 DOWNING STREET

From the Private Secretary

6 August 1979

BF 9.8.79
to 8.45 PM

Post Office Telecommunications: Financial
Target and Tariff Increases

As I told you on the telephone today, I am sure that the Prime Minister will wish to see and consider your Secretary of State's letter of 6 August to the Chief Secretary about the proposed increases in telecommunications charges. We agreed that, since the meeting between your Secretary of State and the Chairman of the Post Office had been rescheduled and would now take place tomorrow (7 August), we would show the Prime Minister your Secretary of State's letter when she returns from Lusaka and not before. I therefore hope to be able to give you her views on it by the end of the week.

I am copying this letter to Alistair Pirie (Chief Secretary's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

N. J. SANDERS

Peter Stredder Esq
Department of Industry.

CONFIDENTIAL

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CONFIDENTIAL



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

*I am very reluctant to agree to this
An increase in size of this
delayed billings would
be very serious for domestic subscribers*

6 August 1979

PRIME MINISTER

The Rt Hon John Biffen MP
Chief Secretary
HM Treasury
Parliament Street
SW1

See John.

*The timing on this has slipped because
Sir Keith Joseph rearranged his meeting with Sir W Barlow.
It will be very unpopular, especially given the state of
play on late bills (flag A). Contact to agree nonetheless?*

POST OFFICE TELECOMMUNICATIONS: FINANCIAL TARGET AND TARIFF INCREASES *M5*

*see
Crown
Pol
Pub
PS*

At its meeting on 23 July Cabinet endorsed the proposal in your memorandum C(79)28 that as part of our public expenditure savings for 1980/81 the Post Office's external finance requirement should be reduced from the plus £35 million originally forecast, to minus £15 million. *9/8*

As you will recall, the Post Office's forecasts for 1980/81 had deteriorated sharply, mainly because of very large downward revaluation of the Telecommunications asset base to take account of technological advance. Since the business's target is to make a 5% return on net assets at replacement cost this revaluation would have led, with an unchanged target, to a substantial reduction in their cash flow.

Department of Industry and Treasury officials have been exploring the situation with the Post Office and it has emerged that it would be relatively straightforward to reset the target at 5½% and in this way to cancel out the effects of the reduction in the asset base.

I have now received proposals from the Chairman of the Post Office for a package of increases in telecommunications charges which would enable them to meet this revised target. The increases are substantial, producing some £400 million revenue in a full year (though even with an unchanged 5% target the business would still need to raise an extra £319 million). They would fall largely on unit call charges (probably up from 3p to 3.3p); charges in call boxes (5p minimum instead of 2p); rentals (up from £33 to £38 for domestic users); and the connection charge (increased from £45 to £55). There would also be big increases for services such as private circuits and special apparatus provided to business users. The increases would be phased over a period starting on 15 October but the first three items listed above would not take effect until next January, so the Chairman's undertaking last April that telephone charges would not be increased this year will be discharged. The full effect would be to put the average domestic telephone bill up by about 13% per cent.

/On ...



On this basis the Corporation's present forecast of their external finance requirement for 1980/81 is minus £67 million at Survey prices, which is £52 million better than the saving decided on in Cabinet. However the situation in that year is still very fluid and I do not think this margin is unnecessary or excessive. The problem is that the current billing dispute will have a significant overhang effect into 1980/81: the Post Office's best estimate is that there will be a backlog of the order of £180m unpaid bills at 31 March 1980 which will be paid during the early part of 1980/81. But this estimate is very tentative and could be wide of the mark in either direction.

The favourable effect on 1980/81 would of course be at the expense of the Post Office's 1979/80 cash limit on which the billing dispute is bound to have a drastic impact. At present the Post Office's tentative estimate is that it will be necessary to increase the limit by some £180 million to allow for bills still unpaid at the end of March 1980. This amount would then be recovered early in 1980/81 and this is allowed for in the figures given above.

I understand that there are also serious problems in the postal business arising from recent and impending large settlements. I shall be discussing these with the Chairman on 8 August and urging him to take whatsoever remedial action may be open to him. I do not rule out the possibility that earlier implementation of the telecommunications increases might be helpful, though I expect Sir William Barlow strongly to resist such a move in view of the public pledges he has previously given. The tariff increases are likely to be unpopular. Nevertheless I am convinced that they are essential if the business is to make the contribution to public expenditure savings which Cabinet decided was necessary. They will be the first increases for main services since October 1975.

When I see Sir William Barlow on Wednesday I propose to seek agreement with him that the telecommunications target should be reset at 5½% on the new asset base until it expires at the end of 1981/82, and to tell him that he can consult POUNC without further delay about the tariff proposals. These would therefore become public within the next week or two. The consultation procedures take time and need to be started very soon if the tariff increases are not to be held up, with damaging consequences for the Post Office's cash flow in the present year. I would therefore be grateful if you could let me know by 10.00 am on Wednesday 8 August whether you agree with this course of action.

I am copying this letter to the Prime Minister and to John Nott.

Yours,
 Ken

Amended:
 1.8.79

- 6 JUL 1979

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LARGE TELEPHONE BILLS

Background Note

Industrial action by the Civil and Public Services Association (CPSA) is continuing to hold up the issue of telephone bills by computer, but the union is balloting its membership on a pay offer which is hoped will be accepted. It will then take several weeks to issue the first bills, which will not be sent out before about the beginning of September at the earliest; and the billing system as a whole will not be completely back to normal until May 1980.

2. As a result, most telephone customers will receive two large bills between now and next May. The first bill will include 2 quarters' rental and 8 or 9 weeks call charges. The second bill will include 2 quarters' rental charges and call charges for that period. The cost for the average residential subscriber is estimated at £63 for the first bill and £32 for the second bill, against a usual average of £23.



LARGE TELEPHONE BILLS

SUPPLEMENTARIES

1. Q. How will the Post Office treat those who have difficulty paying?
 - A. I understand that the Post Office will consider sympathetically genuine cases of serious hardship.
2. Q. What action is the Post Office taking to minimise the incidence of large bills on subscribers?
 - A. The bills in most cases will be spread in two instalments over the period to next May, although each instalment will be considerably larger than the normal quarterly bill.
3. Q. What arrangements have been made for budget payment facilities?
 - A. The Post Office is bringing forward the issue of £5 telephone stamps for the payment of bills, to supplement the £1 stamps that have been available since February. The Post Office recommends subscribers to make use of this facility in advance of receiving their delayed bills.
4. Q. How will the increased rate of VAT apply to the bills?
 - A. No telephone charges increased before 18 June will carry the higher rate of VAT, despite the delay in issuing the bills. Under the terms of the Finance Bill any telephone bill with rental charges before 1 November will carry the old rate of VAT



Prime Minister
Post and Telecomm.
This supports Srikanta's proposals (you have already approved)

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

π
19/7

PRIME MINISTER

FUTURE OF THE POST OFFICE

[Handwritten signature]

Plan A

The Secretary of State for Industry sent me a copy of his minute to you of 13th July.

2. Given his assurance that there will be no increased public expenditure, and the prospect of substantial economies in the medium term, I welcome the proposal to announce the split of the Post Office into two.

3. I also support the proposal that there should be consultations about the curtailment of the telecommunications monopoly. It will be important in these consultations to take into account the need to plan the transition so as to minimise import penetration. I should also like the Department to satisfy itself that the change will lead to no adverse effects on Post Office finances which could increase their borrowing requirement.

4. I agree that the Monopolies and Mergers Commission should examine the efficiency of the Post Office. However, if this is to be effective it is essential that the terms of reference should be carefully drawn and a deadline set. Otherwise, with an organisation as large as the Post Office, there is a serious risk that the Commission will produce something too vague and too late to be of use. I understand that the Department of Industry are now discussing with the Department of Trade the ability of the Commission to take on this task

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and with the Post Office what might be the terms of reference. I should be grateful if my officials could then be given an opportunity to comment on the proposals before they are finalised.

5. In the meantime, I think it is important that any public statements - for example, in the Second Reading Debate on the Competition Bill - about examination of the Post Office, or any other nationalised industry, should make it clear that the precise terms of reference will be announced later.

6. I am sending copies of this minute to the Secretary of State for Industry, the Foreign and Commonwealth Secretary, the Home Secretary, the Secretary of State for Employment, the Chancellor of the Duchy, the Secretary of State for Trade and to Sir John Hunt.

G.H.

(G.H.)

19 July, 1979

19 JUL 1979



Posts + Telecom

JS.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

19 July 1979

Dear Andrew,

FUTURE OF THE POST OFFICE

The Prime Minister has considered your Secretary of State's minute of 13 July. Provided other Ministerial colleagues agree, the Prime Minister is willing to endorse Sir Keith's proposals, which she herself thinks are excellent. The Prime Minister also agrees that Sir Keith should make a short Parliamentary statement before the recess.

I am sending copies of this letter to Tony Battishill (HM Treasury), Stephen Wall (FCO), Tony Butler (Home Office), Ian Fair (Department of Employment), John Stevens (Chancellor of the Duchy's Office), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

Yours ever,

Th. Lakeland

Andrew Duguid, Esq.,
Department of Industry.

[Handwritten mark]



10 DOWNING STREET

PRIME MINISTER

Agree Sir Keith's
proposals, subject to colleagues'
views? (Mr. Nott's minute at
Flag B supports Sir Keith).

Linnell.

TL

*Go ahead with
colleagues*

18 July 1979

ms.



The National Archives

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PIECE/ITEM <i>333</i> (one piece/item number)	
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PRIME MINISTER

FUTURE OF THE POST OFFICE

I welcome the proposals in Sir Keith Joseph's minute to you of 13 July and I strongly support his wish to make radical changes in the competitive environment within which the Post Office operates.

I agree that the Monopolies Commission should be asked to look at an aspect of the efficiency of the Post Office or of some major part of its operations, probably under the new powers in the Competition Bill as soon as it has passed into law. In my view however a reference of the Post Office as a whole would be too wide, and might overwhelm the resources of the MMC at this stage. I shall discuss with Keith Joseph which aspect of the Post Office's business could most profitably be the subject of an examination and report by the Commission.

I am copying this minute to Keith Joseph and to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Home Secretary, the Secretary of State for Employment, the Chancellor of the Duchy and to Sir John Hunt.

Department of Trade
1 Victoria Street
SW1

A handwritten signature in blue ink, appearing to be 'J.N.'.

J.N.

18 July 1979



PRIME MINISTER

FUTURE OF THE POST OFFICE

A major and sustained effort is needed to overcome the totally unsatisfactory situation which exists in the Post Office. Recent events have highlighted some of the worst problems on the postal side - low productivity, wretched service to the public, poor ^{basic} pay and working conditions - but the performance of the Corporation as a whole is suffering severely because it is too big to be effectively managed, too cushioned from competition and too trammelled by monopoly trade union power.

In my view the following action is needed:

- a) We should implement the recommendation made by the Carter Committee 2 years ago to split the Post Office into two Corporations, one for telecommunications and a second for posts and the Giro. I am satisfied that this will not lead to any increased demand for resources or Government financial support in the short term; in the medium term, by establishing the right conditions for effective management, it should lead to substantial economies in both.
- b) Since legislation to formalise this split will not be possible this session we should press ahead as far as possible by administrative action - in particular, I should



use my power of appointment to re-shape the Post Office Board so that it can operate in practice as two separate executive committees, one for each business.

c) Although a major reconstruction of the Board on these lines will not be possible before the end of year, I should appoint a Deputy Chairman as soon as possible to have responsibility for the posts and Giro business.

d) The present Post Office monopoly over the supply, installation and maintenance of telecommunications equipment should be curtailed. Detailed proposals on how this should be done have already been settled with the Home Office. These proposals would need to be reflected in legislation in due course but in the interim could be introduced in part with the voluntary co-operation of the Post Office once the board had been reconstructed. By significantly extending the area of competition, we shall be widening consumer choice and providing a big stimulus to the Post Office's own efficiency and responsiveness to its customers' needs. We shall also be opening up new opportunities for the private sector to exploit the very rapid technological progress being made in telecommunications. There should be scope for small firms, in particular, to market new services that will meet special consumer requirements. The prospects in this field are exciting!

e) I have already announced that I intend to review the postal monopoly. One essential step here is for the statutory power to grant derogations from the monopoly to be exercised

/in ...



in the last resort by the Secretary of State and not, as at present, by the Post Office Board. We should consider the possibility of introducing a very short Bill in the present session to give effect to this change. If parliamentary time permitted, I should like to extend this to the telecommunications monopoly, and will be consulting about the possibilities.

f) The efficiency of the Post Office should be referred for examination by the Monopolies and Mergers Commission.

g) Subject to the outcome of consultations which I shall be undertaking later in the year we should bring to an end the experiment of having seven Post Office union nominees as members of the main Board. The experiment has failed to improve industrial relations in the Post Office and has seriously reduced the effectiveness of the Board. I recognise, however, that we shall need to proceed with care on this point to avoid unnecessarily exacerbating our difficulties with the union, and I must reserve a final decision until my consultations take place at the end of the two year experiment initiated by the last Government.

All these proposals will be warmly welcomed by the Chairman of the Post Office, who regards the Corporation as unmanageable in its present state; indeed he has told me that he would not wish to continue unless action is taken urgently to help management to regain control of the business from the trade unions. I have formed a high regard for the dedication and ability of the

/Chairman. ...



Chairman. He shares our general philosophy and I regard it as vital to keep him at the head of this very large and important industry.

I am very anxious to keep up the momentum for change. Subject to your views, therefore, I should like to make a short Parliamentary statement before the recess announcing my decision to split the Corporation and my intention to enter into consultation with the Post Office, the manufacturing industry, the unions and other interested parties about curtailment of the telecommunications monopoly.

I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Home Secretary, the Secretary of State for Employment, the Chancellor of the Duchy, the Secretary of State for Trade and to Sir John Hunt.

4
K J

13 July 1979

Department of Industry
Ashdown House
123 Victoria Street

11 12 1
10 9 8
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13 JUL 1979



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Posts + Telecomm

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DEPARTMENT OF INDUSTRY
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Mich

Secretary of State for Industry

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

~~Prime Minister~~

To note. 6 July 1979

ms

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67

Dear Tim,

POSSIBLE DISRUPTION IN STAMP SUPPLIES

The Prime Minister may wish to know the background to recent pieces in the Press referring to a possible shortage of postage stamps.

As a part of selective industrial action during its annual pay negotiations with the Post Office, the Civil and Public Services Association has called out on strike five key workers at its Hemel Hempstead postage stamp store. This store is the central supply point for Post Offices in the United Kingdom, and at present Post Offices are having to draw on their stocks. So far, with some exceptions in the South East (Guildford and Slough) supplies have been sufficient, but the situation is likely to deteriorate during the course of next week. The Post Office has in mind certain emergency measures (eg hand franking for prepayment in individual post offices) but is reluctant to introduce these until the situation becomes critical since they are no more than palliatives to avoid disruption of the service. Other possibilities have been blocked by sympathetic action by other trades unions.

The Post Office do not wish to draw too much attention to the difficulties principally to avoid panic buying, but much will turn on the progress of the pay negotiations in the next few days, for an early settlement would avoid the introduction of special measures. But at present the outlook is uncertain and it may be that the situation will deteriorate during the course of the week with the result that the public will find it increasingly inconvenient to use the postal services.

I am copying this letter to the Private Secretaries to other members of the Cabinet, the Minister of Transport and Sir John Hunt.

Yours sincerely,
Pete

PETER STREDDER
Private Secretary

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE

121 VICTORIA ST
LONDON SW1E 5JF
TELEPHONE: 9241111
SWITCHBOARD: 9241111



Secretary of State for Industry

5 JUL 1973

Postal Service

Sir Keith Joseph delivered a short Statement (attached). He was attacked from the Labour side for his remarks about ending the Post Office monopoly, which was said to be bad for morale among the hard-pressed postal workers.

In response he said that he very much hoped that productivity in the Post Office would improve and regretted that the unions had not agreed to the productivity package which had been offered to them. He said, to general agreement from all sides of the House, that the deterioration in standards in the postal service had been going on for several years. On the monopoly point, he said that monopolies had responsibilities and obligations as well as privileges. All he was asking for was protection for the public against the misuse of monopoly in the public sector.

Tension was lower for this Statement, largely as a result of press reports that overtime working this weekend had very much reduced the letter backlog. Sir Keith did not move further in substance on the ending of the Post Office monopoly, but there will be many questions in the autumn about whether he has received the report which he has commissioned on it.

MJS

2 July 1979



DRAFT STATEMENT BY THE SECRETARY OF STATE FOR INDUSTRY ON
THE POSTAL SERVICES

In the middle of last week the Post Office had a backlog of one and a third days mail - some 40 million letters. This was the cumulative effect of industrial action in the Post Office; and on the railways; bad weather earlier in the year, staff shortages and letter bombs in Birmingham.

The worst effects have been in the London area.

Over the weekend there was extensive working to reduce this backlog and I welcome these efforts. But while improvements were made some problems remain, particularly in parts of London and the South East. Continued efforts will be necessary.

Although I recognise that special circumstances, some of them beyond the Post Office's immediate control, played a considerable part in last week's difficulties these problems have only confirmed that much needs to be done to improve the efficiency and productivity of the postal service, and I have made this clear to the Chairman of the Post Office - for whom I have great respect. I am particularly disappointed that an offer by the Post Office of better pay for reduced costs, higher productivity and better services have been refused by the workforce.

If cooperation to improve services is not manifest it will be necessary to review the Post Office's monopoly for the carriage of letters. I am asking to be given before the end of this year reports on possible modifications, their practicability and their implications.

2 JUL 1979





Post +
Telecomms

DEPARTMENT OF INDUSTRY

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PS/*Secretary of State for Industry*

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

June 1979

Dear Nick,

POST OFFICE INDUSTRIAL DISPUTE

... I attach a draft telegram for you to send to the Prime Minister in Tokyo on the current situation in the Post Office. My Secretary of State's statement in the House on Monday about the postal monopoly received wide coverage and it follows from the content of the telegram that he does not propose to issue any press announcement.

*Yours sincerely,
Pete.*

PETER STREDDER
Private Secretary

CONFIDENTIAL



~~DRAFT TELEGRAM TO THE PRIME MINISTER~~

The Post Office announced today that mail services, especially in London and the South East, will be delayed. Customers have been advised to post only essential mail. The news made the main headline in the Daily Telegraph, and was reported in most of the other national papers.

The main causes are the cumulative effect of staff shortages and industrial disputes which were finally brought to a head by the one day strike and subsequent non-cooperation by postal supervisors. The UPW is also following a policy of non-cooperation in some areas. In addition, some members of the Civil and Public Services Association at the stamp distribution centre at Hemel Hempstead have gone on strike.

The delays amount to about one or two days nationally to first class mail, and up to a week for second class mail. The Post Office cannot say for certain when services will return to normal, but think it will be a matter of weeks rather than days.

The Secretary of State for Industry has been kept in close touch with the position, and will give his full support to measures which the Chairman of the Post Office takes to deal with the situation. He has arranged to see the Chairman in the near future and will take this opportunity to discuss the situation with him. He has no powers to intervene in management and anyway would not think it right to undermine the authority of Post Office management by intervening in the day to day decisions of the postal business.

CONFIDENTIAL/If ...

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2



If the situation gets worse, there is likely to be mounting pressure to do something about the Postal monopoly. The Secretary of State has already made it clear publicly that he would not rule out such a course. The results of work put in hand confidentially on this immediately after the Election will be ready shortly, and the Secretary of State will then decide whether to put proposals to his colleagues.

CONFIDENTIAL

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27 JUN 1979



PRIME MINISTER

Post Office Dispute at Enfield

Post Office workers in Enfield are refusing to handle 150,000 Polling Cards for the European Election. They are also refusing to handle Election material from the political parties. This is part of a dispute which has been going on for sometime. They have now been sent home without pay. Enfield is of course part of the London North constituency.

The Home Office are unlikely to be able to make alternative arrangements for getting the Cards to voters in time. The absence of Cards does not of course affect the ability of people to vote; but they do act as a reminder. However, the Conservative Party is planning to deliver its Election material to the voters who are affected by hand. The Labour Party are talking of issuing an injunction against the Post Office, but it is thought they are unlikely to proceed with this. The Liberals do not have any Election material to deliver.

This is all highly unsatisfactory, though at least the Conservative Party are making alternative arrangements. But I do not think there is anything which can be done, short of meeting the Post Office workers' unreasonable demands, to get them to co-operate.

*It is disappointing - none the less
no*

5 June 1979

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Post 4
Telecoms 2



DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

Secretary of State for Industry

1 June 1979

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Prime Minister

Dear Tim,

[Handwritten mark]

To note

TL

... I attach a note on today's one-day strike by CPSA workers in Post Office Telecommunications in London as you requested earlier this evening. ^{1/6}

*Yours sincerely,
Pete.*

PETER STREDDER
Private Secretary

1 JUN 1979

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DEPARTMENT OF INDUSTRY

ANNEX DOWN HOUSE

111 VICTORIA STREET

LONDON SW1E 5RB

TELEPHONE: 01-235 8500

TELETYPE: 01-235 8500

1 JUN 1979

The following information is for your information only. It is not intended to be used for any other purpose.

1 JUN 1979



The "white collar" unions in Post Office Telecommunications, the SCPS and CPSA, have for some time been taking selective action in support of their pay claims. These are for increases in pay comparable to those recently given to civil servants, who belong to the same unions. These increases would be on pay levels in the Post Office which are already close to those which will be achieved by civil servants on 1 January 1980. Sir William Barlow has told the Secretary of State that he is determined to resist this claim which he regards as being completely unjustified.

Selective action has involved a strike by computer staff involved in telephone billing and some outside contract work. At present 7.6 million telephone bills are outstanding with an estimated revenue value of £342 m. The Post Office unions have cooperated in manual billing, which has brought in £68.1 m to offset this. However, their members have not cooperated in undertaking the duties of computer staff who are on strike and therefore a number have been progressively sent home without pay over the last week.

As a result, the CPSA in London today called a one-day strike in London in protest against this disciplinary action. The newspapers estimated that 10,000 people took part in this strike; the Post Office puts the figure at closer to 7,000. We have no reports that this action is to be repeated but that will obviously depend on how long the strike lasts.

LABOUR

ard
ge

ing oil-related work. Texaco commented that if the men did not return to work it would have to consider other means of getting the modules completed in time to be floated to the field during this summer's mild weather. If that proves impossible, production from the field will be delayed a year.

"The future of the Burntisland yard is the responsibility of British Shipbuilders, but the best way it can attempt to attract further orders is to build up confidence in its ability to complete an order and deliver it on time," the company said.

ACT SOON

All the signs yesterday were that a new offer would emerge at next week's negotiations, with any new money for lower-paid workers coming out of a grading reshuffle.

Union leaders have insisted that the chief reason for rejection of the last offer was that more new money was required.

Lower-paid workers, from craftsmen downwards, are said to be demanding an improvement on the £6-a-week rise offered so far. Foremen are believed to be prepared to settle for their proposed £11 on basic rates.

Rubery jobs cut

ABOUT 400 workers are to be made redundant at the Rubery Owen plant in Darlaston, West Midlands. The group has been making an annual loss of £500,000 at the plant which has been hit by recent strikes in the motor industry.

Tube strike threat as pay offer is rejected

By Philip Bassett, Labour Staff

UNION LEADERS representing 23,000 Tube workers in London rejected London Transport's latest pay offer yesterday and gave warning of industrial action.

The executive of the National Union of Railwaymen, which represents about 65 per cent of Underground workers in London, is expected today to consider authorising a strike.

Officials of the NUR, the train drivers' union ASLEP and the white collar Transport Salaried Staffs Association met London Transport and urged improvements in the present pay offer, which would add 10.3 per cent to the pay bill.

The offer would give increases of an average of 9.8 per cent on basic rates and in London weighting, and improvements such as extra holidays for wages grade staff, improved differentials for supervisors and booking office staff and some consolidation of existing settlements.

The London Transport Executive also told union leaders it was willing to examine any case where staff thought that they had been dealt with unfairly.

The executive, though, rejected union claims for "substantial" improvements and a restoration of differentials to their 1975 level. The claim is estimated to be worth 17-20 per cent.

Mr. Charlie Turnock, assistant general secretary of the NUR, said after the meeting that the unions had thought they were going to discuss a new pay offer, not a rearrangement of the last one. "It doesn't come near what we are asking for."

Telecommunications staff expected to strike today

BY PHILIP BASSETT, LABOUR STAFF

TEN THOUSAND Post Office telecommunication staff in London are expected to strike today over suspension of 250 clerical staff who refused to perform work normally done by staff now on strike over pay.

The Post Office said yesterday that more than £300m in revenue was held up by selective strikes by the Civil and Public Services Association and Society of Civil and Public Servants.

Strikes at computer centres at Leeds and Harmondsworth, Middlesex, have halted issue of computer-processed telephone bills since April 5, although the Post Office has prepared some bills by hand for large customers.

Today's one-day stoppage, which the Post Office said would have little effect on the public, is by the 10,000 London members of the CPSA.

Those suspended are mainly in London Central and London City Commercial Cash Group branches.

Forty CPSA members at the two centres were called out in an attempt to halt receipt and banking of telephone bill payments. The Post Office asked the 250 staff in groups of about 20 to take over their work, and they were suspended when they refuse.

The association is paying the suspended staff strike pay of their usual basic wage and this week has started collecting a voluntary levy among its 230,000 members. The Post Office said that about 350 other staff had walked out in sympathy with the 250 who had been sent home for refusing to work as directed.

The association termed the Post Office's action in suspending staff "highly provocative."

The two unions claim increases of about 25 per cent. The Post Office has offered all six unions representing about 200,000 telecommunications workers an increase of 9 per cent plus 3.7 per cent for grade reconstruction.

Thatcher meets Murray

BY CHRISTIAN TYLER, LABOUR EDITOR

MRS. Margaret Thatcher met Mr. Len Murray, TUC general secretary, yesterday for the first time since becoming Prime Minister.

There was no formal agenda for their meeting which lasted about an hour and was attended by Mr. James Prior, the Employment Secretary.

There were no statements

afterwards; indeed, officials had tried to keep both the date and time of the meeting secret.

But it is unlikely that industrial relations and the Government's plan for legal curbs on union activity went undiscussed.

This is at the top of Mr. Prior's agenda in the round of talks he has planned through the summer before producing a Bill in the autumn.

Borthwicks

International meat processors, traders and retailers

Interim Report for the six months ended 31st March, 1979

The unaudited results of the Group for the six months to 31st March, 1979 are shown below, together with those for the six months to 31st March, 1978 and the year to 30th September, 1978. The Board has declared an interim dividend of 2.4p per Ordinary share at the close of business

25/5
Post + Telecom.

POSTAL TARIFFS AND THE PRICE COMMISSION

The announced abolition of the Price Commission, which will not take place for several months, has not led to any substantial change in the timing or size of the Post Office's proposed increases. The prices charged by nationalised industries, as during the previous Administration, are considerably influenced by the financial targets that are set by Government; no change in policy has arisen. The price rise will be looked at by the Post Office Users National Council in accordance with statutory procedures.



PAT

DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
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PS/ Secretary of State for Industry

22 May 1979

John Symes Esq
 Private Secretary to the Secretary of
 State for Trade
 Department of Trade
 1 Victoria Street
 London SW1

RMS

Dear John,

POSTAL TARIFF INCREASES

Your Secretary of State wrote to Sir Keith Joseph on 21 May. Whilst my Secretary of State sees the advantage of linking the timing of the announcement of the Post Office's proposals for tariff increases and the result of the UPW wage negotiations, he would be most reluctant to wait for the outcome of these negotiations to be known before letting the Post Office proceed. Each day's delay will cost the Post Office £ $\frac{1}{2}$ m, and it is unlikely that the UPW settlement will be reached within the next week or two. Thus to delay on these grounds would be to increase the risk of the Post Office failing to meet its financial objectives for the current year.

In view of the Prime Minister's agreement contained in Tim Lankester's letter of 21 May, my Secretary of State therefore proposes to let the Post Office know by close of play today (22 May) that he is content for them to proceed.

I am copying this letter to Tim Lankester, Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

Yours sincerely,
 Pete

PETER STREDDER
 Private Secretary

22 MAY 1989

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From the Secretary of State

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

R 215

21 May 1979

Dear Keith .

POSTAL TARIFF INCREASES

I have seen your letter of 15 May to the Chancellor and I agree that, as the Post Office must stay within its cash limit for 1979/80, the postal tariff should be increased as you suggest. Further, and following our discussion in Cabinet yesterday, I strongly support the need to make progress with our commitment to review the Post Office's statutory monopoly - although I think we should do it in a low key.

I must however, express misgivings at our approval of a large price increase in an inefficient industry which is likely to conclude an inflationary wage settlement. Clearly we need an effective spur to greater efficiency for the Postal Business which neither the present financial or non-financial targets seem to provide. I think we should keep this in mind in finalising the new powers that we shall be giving to the Director General of Fair Trading, and the Monopolies and Mergers Commission.

I am also concerned at the timing of the proposed increase. There is an illogicality in pressing on with a 13% increase as soon as possible, when the UPW have rejected a similar sized wage deal. Since the connection between prices and the ability to pay increased wages will be clearly appreciated by the Unions, a tariff increase

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From the Secretary of State

made before the conclusion of wage negotiations may simply increase pressure for a higher wage settlement. Therefore it might be preferable to wait a week or two longer before making any announcement.

I am copying this letter to the Prime Minister and the Chancellor of the Exchequer.

*Yours ever
John.*

JOHN NOTT

21 MAY 1979



CCTSY
DIT
CO

JS

10 DOWNING STREET

From the Private Secretary

21 May 1979

POSTAL TARIFF INCREASES

I have shown the Prime Minister your letter of 18 May on the above subject. In the light of the further information contained in this letter and the assurance that your Secretary of State will be following up the question of improved efficiency, the Prime Minister is now content that the Post Office should be told that the Government has no objection to its going ahead with the statutory approach to the Post Office Users' Council.

I am sending a copy of this letter to Tony Battishill (HM Treasury), Tom Harris (Department of Trade) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Peter Stredder, Esq.,
Department of Industry.

A large, stylized handwritten signature in the bottom right corner of the page.

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
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PS/Secretary of State for Industry

18 May 1979

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

*Agree but Sir Keith Joseph
should now proceed on
proposed at X?
his own. TL*

Dear Tim,

POSTAL TARIFF INCREASES *with PM*

Flag A

You wrote on 16 May conveying the Prime Minister's comments on my Secretary of State's letter of 15 May to the Chancellor.

18/5

The question of whether or not the Post Office could avoid price increases and yet meet its current financial objectives through increased efficiency was carefully examined by my Secretary of State, but he is convinced that the Post Office is not able to produce sufficient savings to affect the situation in the short term. Moreover, he viewed this proposal against the background of one increase only in basic letter rates since 1975 ($\frac{1}{2}$ p in 1977), and of an objective agreed with the Post Office to contain the overall real unit cost of postal services at the 1977/78 level until 1982/83.

*i.e. the new
powers for
the Director
General of
Fair Trading*

My Secretary of State has however been giving serious thought to the question of postal efficiency and raised the matter when he saw the Chairman of the Post Office on 11 May. As he made clear in his letter to the Chancellor he intends to follow up the question vigorously. He has, for example, not ruled out the possibility of an efficiency audit, but feels that it would be best not to take a decision on this until the new machinery for such an investigation is established. I understand that this will be some time in the autumn.

The Secretary of State has moreover told Sir William Barlow that when the price increases are announced, he intends to find an early opportunity to say that it is a matter of grave concern that they should be made when the Post Office workers have rejected Post Office proposals to increase efficiency. His speech in the debate on the Queen's Speech may provide a suitable opportunity. As for the monopoly, the Secretary of State has commissioned* an urgent examination of the case for abolition or curtailment. When he has considered the results he will consult his colleagues.

Flag B

The Chief Secretary in his letter of 16 May also asked whether the Post Office could be given flexibility to make larger price increases should the cost of the 1979 wages settlement be more than expected. My Secretary of State would be reluctant to see a greater increase in tariffs than the Post Office has already proposed, particularly on the basic letter rate. The Post Office feels that a larger

*during his first days in the Department.

/increase ...

CONFIDENTIAL

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increase in the letter rate would not make commercial sense in view of the likely effect it could have in terms of traffic deterrence. There is some flexibility in that given rapid clearance, the Post Office could introduce the increases rather earlier than the original target date of late August/early September.

X | My Secretary of State therefore hopes that the Prime Minister will agree that the Post Office should now be told that the Government has no objection to its going ahead with the statutory approach to the Post Office Users' Council.

I am copying this letter to Tony Battishill (HM Treasury), Tom Harris (Department of Trade) and to Martin Vile (Cabinet Office).

*Yours sincerely,
Pete*

PETER STREDDER
Private Secretary



18 MAY 1979



4
Posts
and Tels.

10 DOWNING STREET

From the Private Secretary

~~B/F 25.5.79.~~

16 May, 1979.

The Prime Minister has considered your Secretary of State's letter of 15 May in which he proposes that he should inform Sir William Barlow that the Government has no objection to his setting in train the statutory procedures in anticipation of certain increases in postal tariffs.

The Prime Minister has expressed her doubts about the proposed increases, and has asked whether it might not be possible to make the necessary improvement in return on turnover, and meet the cash limit by improved efficiency. She has also commented that the postal letter rate is already absurdly high, and has asked whether there is not a strong case for breaking the Post Office's monopoly on the postal side.

Whether or not it is possible for the postal business to meet its financial target without the proposed price increases in the short run, the Prime Minister would like to know what plans the Secretary of State has for looking at efficiency in the Post Office.

I am sending copies of this letter to Tony Battishill (HM Treasury), Tom Harris (Department of Trade), and Martin Vile (Cabinet Office).

J. P. LANKESTER

A.A. Duguid, Esq.,
Department of Industry.

ADG



Prime Minister

2

To note. I have
told DoI (Flag A) that
they must not go

Treasury Chambers, Parliament Street, SW1P 3AG

ahead until we know
more about the possibilities
of improving efficiency.

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

WJB

16th May 1979

JL

16/5

Dear Keith,

JL

POSTAL TARIFF INCREASES

Thank you for your letter of 15 May.

I certainly agree that postal tariffs should be raised at the earliest possible date, as you propose; and that the Price Commission should be warned off. The uncertainties on the wages front to which you refer do of course pose the question whether these increases are going to be sufficient to ensure that the Post Office does in fact meet its cash limit and financial target for 1979-80: I assume we are agreed that these financial disciplines are overriding and that, to the extent that the Post Office can leave their options open as to the full extent of the tariff increases until the details of the pay settlement emerge, they will do so.

I am copying this letter to the Prime Minister and John Nott.

WJB
John Biffen

JOHN BIFFEN

[Faint, illegible handwriting]

16 MAY 1979
10 11 12 1
9 8 7 6 5 4 3 2 1





Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Who is going to look at the P.O. with the P.O. efficiency

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall
London SW1

The P.O. is already in a bad way. I don't see how we can reduce the money. We must do this - how can we reduce the money? not!

15 May 1979

*↑
Sir Geoffrey*

These increases seem unavoidable if the P.O. is to meet its cash limit. Are you content?

POSTAL TARIFF INCREASES

The Post Office has approached me with proposals for increases of 1p on both first and second class basic inland letter rates, with comparable increases on other weights; a 14% increase on inland parcels; and increases of 18-19% on inland mails. The weighted average increase comes to about 13%. It has also proposed increases in postal order and certain national Girobank charges.

The increases are required in order to enable the Postal Business to meet its financial target of a 2% return on turnover and to make its contribution to meeting the Post Office's cash limit. The last postal increase (a 1/2p on the basic letter rate) was in June 1977.

The Post Office proposals have been examined by my Department and there seems no other way in which the Post Office can meet its cash limit and financial target for 1979/80. The Post Office is aiming to introduce the increases in late August, but in view of all the uncertainties on the wages front (the Post Office has still not made any settlements with its main unions in the current round) I shall press Sir William Barlow to implement them sooner if at all possible.

Having said that, it is a matter for considerable dissatisfaction that the UPW Membership recently rejected proposals that would have led to increased efficiency, notably by greater use of part-time postmen and by traffic measurement. I have made it clear to Sir William Barlow that I attach the greatest importance to effective measures being taken by public sector industries to improve their efficiency, and that this applies especially to the monopoly industries, such as posts and telecommunications. I have left Sir William in no doubt of my determination to follow up this aspect of the Post Office's performance.



CONFIDENTIAL

2.

The Post Office is statutorily required to consult the Post Office Users' National Council (POUNC) before increasing charges. This consultation is expected to take about a month. It would take the Post Office a further 6 weeks to implement the increases, so that the earliest they could become effective is August. Under present legislation the increases must also be notified to the Price Commission who have 28 days to decide whether or not to make a full investigation. I take it that John Nott will ensure that the Price Commission does not in fact decide to investigate these proposals, and if necessary we would use our power to veto an investigation.

I believe it is essential that these proposals are announced quickly, so as to make it clear that they are a result of a situation inherited from our predecessors. Unless I hear to the contrary, I therefore propose to tell Sir William Barlow on Wednesday 16 May that I have no objection to his setting in train the statutory procedures.

I am copying this letter to the Prime Minister and to John Nott.

Lawson

Kear

15 MAY 1979

12 11 10 9 8 7 6 5 4 3 2 1

