PREM 19/2390

MT

PART 1

CONFIDENTIAL FILING

PAY NEGOTIATIONS IN THE POST OFFICE

INDUSTRIAL ACTION

POST AND TELECOMMUNICATIONS

PART 1: APRIL 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~27.11.85~~							
~~8.4.87~~							
~~9.4.87~~							
~~11.5.87~~							
~~12.5.87~~							
~~13.5.87~~							
~~30.6.87~~							
~~23.7.87~~							
14.V.V7							
[redacted]							
PART ENDS							

PREM 19/2390

PART / ends:-

PS/CST TO DTI 14.8.87

PART 2 begins:-

CDL TO CST 14.9.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(80) 79	25.7.80
E(80) 28th Meeting, Minute 1	28.7.80
CC(84) 21st Conclusions, Minute 4	7.6.84

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed D A Wayland. Date 21 January 2016

PREM Records Team

018/3298

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

Jeremy Godfrey Esq
Private Secretary to the
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

14 August 1987

Dear Jeremy,

GIROBANK PAY

The Chief Secretary has seen your letter of 11 August.

He was very disappointed that Girobank were unable to move on geographic pay although it is clearly justified for the majority of staff employed by them. He recognises, however, that in relation to Girobank and to pay in the financial sector more widely, the advantages are for a quick settlement. He is therefore willing to accept Ron Dearing's proposals subject to work being put in hand to develop proposals for the introduction of geographic pay variation in Girobank particularly, and other Post Office businesses generally, in good time for next year's negotiations.

I am copying this letter to the Private Secretaries to the Prime Minister, to E(PSP) members and to Trevor Woolley in the Cabinet Office.

Yours sincerely,

M C FELSTEAD
Private Secretary

File

LOR

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 July 1987

Dear Alastair

The Prime Minister has seen your letter of 22 July, and has approved the proposed question and answer.

I am copying this letter to the Private Secretaries to the members of H Committee.

Yours ever

Andy

P. A. BEARPARK

Alastair Morgan, Esq.,
Office of the Chancellor of the
Duchy of Lancaster and Minister of
Trade and Industry.

SRW

CONFIDENTIAL

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From the Chancellor of the Duchy of Lancaster and Minister of Trade and Industry

THE RT HON KENNETH CLARKE QC MP

Prime Minister

Content ?

AMS 22/7.

Andy Bearpark Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

22 July 1987

Yes pls

Dear Andy,

POST OFFICE: INDUSTRIAL ACTION

The Chancellor, Secretary of State and Sir Ronald Dearing have agreed that in view of the expected ballot in September of members of the Union of Communication Workers (UCW) on a recommendation to take industrial action in support of the UCW Annual Conference's demand for a three hour cut in the working week, it would be opportune to restate the Government's position on the possible suspension of the postal monopoly. The Chancellor wishes to do this by means of an arranged PQ.

I am attaching the text of the proposed question and answer, and I should be grateful if you would seek the Prime Minister's approval. We hope to table the question tomorrow for answer on Friday.

The Government's position was previously stated in the House by Sir Keith Joseph in 1980, and confirmed by Mr Tebbit in a statement on the occasion of industrial action at Mount Pleasant sorting office just over two years ago. I attach copies of the Department's press notice at the time and the official record.

I am copying this to the private secretaries of the members of H.

Yours sincerely,

Alastair Morgan.

ALASTAIR MORGAN
PRIVATE SECRETARY

EC5BBQ

Q To ask the Chancellor of the Duchy of Lancaster what action he will take, in the light of the recent disruption of the mail service in [locality to be selected], and the threat of industrial action in support of a claim for a shorter working week, to safeguard postal services.

A It is primarily for the Post Office Board to deal with industrial action by its employees. However, subject to certain derogations, the Post Office enjoys the exclusive privilege of providing a letter service in the United Kingdom. The Government considers that such a privilege must continually be justified, and powers are available to suspend the monopoly. The monopoly is long established and we would not lightly suspend the privilege. But Ministers have stated on a number of occasions that we would use those powers in the event of industrial action within the Post Office that resulted in a cessation or serious decline in the quality of service. I confirm that that remains our policy and I would suspend the monopoly in such circumstances but I do not believe that the problems in [....] have yet reached the stage of sufficient gravity to justify that step.

Postal Services

4.6 pm

The Secretary of State for Trade and Industry (Mr. Norman Tebbit): With permission, Mr. Speaker, I should like to make a statement about the possibility of disruption to postal services as a result of industrial action by members of the Union of Communications Workers.

The Post Office has been discussing with the UCW for several months a number of measures to improve productivity and provide a more reliable mails service. The need for improvemt has been indicated over many years, most recently in the Monopolies and Mergers Commission report on the letters service, published in September last year.

Negotiations last weekend resulted in a failure to reach an agreement acceptable to both parties. Some UCW members subsequently refused to continue operating the optical character recognition machine at the Mount Pleasant sorting office yesterday and were suspended. That led to a walk-out by staff. I understand that, following an injunction granted to the Post Office in the High Court, the afternoon shift reported at 2 o'clock today, and the OCR machine is now operating normally.

Subject to certain derogations, the Post Office enjoys the exclusive privilege of providing a letters service in the United Kingdom. My right hon. Friend the Member for Leeds, North-East (Sir K. Joseph) the then Secretary of State for Industry told the House on 16 July 1980 that powers are available to remove the monopoly, either in a local area or nationally, and that those powers would be used in the event of industrial action within the Post Office that resulted in a cessation or serious decline in the quality of service. That remains the case.

Mr. John Smith (Monklands, East): Does not the Secretary of State realise that the settlement of the differences between the Post Office management and the UCW over quite difficult matters such as the proposed large increase in part-time workers and the use of OCR machines throughout the country can be satisfactorily achieved only by negotiation and a real attempt by both sides to reach an agreement? Is it not remarkable that in the statement that the right hon. Gentleman has chosen to make to the House today, at no stage did he refer to negotiations or wish the process of negotiation any success? Is the right hon. Gentleman not aware that at this very moment discussions are taking place between the executive of the UCW and the chairman of the Post Office? Would it not be better to encourage that attempt to settle the dispute rather than, at this delicate stage, to make a provocative and ill-judged threat to withdraw the Post Office monopoly?

Mr. Tebbit: I have made no threat whatever. There has been no provocation and nothing that has been done either by me or by the Post Office management has been ill-judged. I understand that negotiations have been resumed and I welcome that. I believe that it is best not to comment on those negotiations at this stage, but I hope that they will come to a fruitful conclusion.

Mr. Robert McCrindle (Brentwood and Ongar): As disputes of this kind are very difficult to resolve once they have started, will my right hon. Friend confirm that there is nothing to prevent ACAS intervening in advance of any dispute if the parties are unable to reach agreement? To the extent that a dispute is possible, does my right hon. Friend agree that it is the Government's duty to allow and encourage the maximum movement of mail in this country? Is he satisfied that there are private sector companies ready and willing to do that?

Mr. Tebbit: My hon. Friend is right. ACAS is ever ready to offer assistance but it is up to the parties to agree on whether they wish to take advantage of such assistance. One of the most important aspects of the dispute is the fact that the Post Office has used the injunction procedure and thereby ended the industrial action. The question of suspension of the monopoly therefore does not arise at the moment as there is no problem with the post. Should the post be interfered with, I should, of course, have to consider the matter most carefully.

Mr. Chris Smith (Islington, South and Finsbury): Does not the Secretary of State realise the fears of the workers at Mount Pleasant sorting office in my constituency have been exacerbated by the management's provocative action in unilaterally introducing new technology and productivity measures? Does he agree that it is even more provocative for the Government now to be making implied threats about the future of the Post Office monopoly?

Mr. Tebbit: The hon. Gentleman refers to the introduction of new technology as though the machine in question had not already been working for a year.

"New technologies mean major changes in the way we work and how we live. In the Britain of the future, we will need a new flexibility in the way we work—with less hours at work, a positive approach to new technologies, a new priority to training and retraining throughout our working lives".

The prose may be pretty turbid, but that is the kind of stuff being put out in the names of the Leader of the Opposition and a pop singer called Bragg.

Mr. Teddy Taylor (Southend, East): As the TUC is constantly telling the Government to encourage the cutting down of excess overtime so that more people can be taken from the ranks of the unemployed, will my right hon. Friend invite the TUC to support the Post Office, which is proposing exactly that by cutting overtime and employing more people at present out of work?

Mr. Tebbit: The formal view of the TUC was expressed in its paper presented to the March meeting of the National Economic Development Council. It said:

"Although in limited cases for short periods overtime can provide extra flexibility it rapidly becomes entrenched and inefficient."

We all agree with that, don't we?

Mr. John Ryman (Blyth Valley): Will the Secretary of State concentrate on the real issues in the dispute? Is not the truth of the matter that the Government are now pressuring Sir Ronald Dearing to bash the Post Office workers, just as they pressured Mr. MacGregor to bash the coal miners? Is the right hon. Gentleman aware that the Post Office union's conference takes place in six weeks' time and that if negotiations had been conducted with a bit more diplomacy and sensitivity these issues could have been amicably resolved? As it is, on 15 April part-time and casual workers are to be introduced without consultation or agreement with the unions. Will the Secretary of State use his goodwill to allow commonsense to prevail in the negotiations and restrain the charman of the Post Office from taking such hostile measures?

Mr. Tebbit: I gather from the hon. Gentleman that there is some criticism of the chairman of the Post Office. I must confess that I would not differ from the view that Sir Ronald Dearing is superb, inventive, humorous, loyal——

Mr. Ryman: Like you?

Mr. Tebbit: Indeed. Those adjectives were applied to Sir Ronald Dearing by the right hon. Member for Manchester, Gorton (Mr. Kaufman) in his book, talking about the Civil Service. I am surprised that the hon. Member for Blyth Valley (Mr. Ryman) is critical.

As for provocation, the Post Office management and the UCW have been in negotiation for many months on many of these issues concerning productivity and working methods. Although a good deal of progress has been made, the hands of the UCW negotiators were tied by conference decisions abou the extension of productivity agreements corporation-wide and the recruitment of part-time staff. The Post Office had hoped that the special delegate conference in early March would untie the union negotiators' hands, but the knots were firmly retied by very large majorities. In those circumstances, there seemed little point in waiting for the normal conference in May and every reason to press ahead with the introduction of arrangements which will benefit the staff and, above all, those who use the Post Office service. The Post Office is there for the public to use, not for people to play silly games in.

Mr. Neil Hamilton (Tatton): I welcome the news that there has been a return to work, but should not those who went on strike yesterday to preserve inefficient and high-cost services realise that no one is indispensable, as the United States air traffic controllers discovered when President Reagan sacked them? Although we welcome my right hon. Friend's cautious words about the Post Office monopoly and industrial action, as the Government are bent on deregulation is it not time to consider the matter on a long-term basis to see whether there is any justification for the monopoly?

Mr. Tebbit: I think that it is fairly clearly established that the Post Office monopoly of the letter post has benefits as well as disbenefits. If my hon. Friend feels that there are arguments about this as yet unrehearsed I am sure that he will give them a fair airing. Of course, if there are bouts of industrial action in the Post Office the balance will change, perhaps decisively.

Mr. Paddy Ashdown (Yeovil): We accept the case for introducing new technology and reducing overtime to achieve flexibility and to spread jobs, but does the right hon. Gentleman agree that a prolonged industrial dispute would lose all the benefits of those reforms? Does he accept that the key to solving the dispute may lie in assuring Post Office workers that productivity bonuses will go some way to reducing the loss of overtime earnings on a regular basis? Does he also agree that it would be foolish for the Government to convert the dispute into a battleground over the introduction of further privatisation?

Mr. Tebbit: The hon. Gentleman is absolutely right. No one who is sensible about these matters would want a dispute in the Post Office. That would damage the Post Office and the prospects for jobs in it. We all expect excessive overtime to be cut back so that more workers can be taken on. That is common sense. There is, of course, the problem that some workers have become very reliant on long hours of overtime. I emphasise, however, that Sir Ronald Dearing made it plain in a letter distributed to all Members of the House that 55 per cent. of the gains from these changes would fall into the hands of the Post Office workers. That is a fairly generous split.

Mr. Tim Smith (Beaconsfield): Bearing in the mind the success of private operators in providing a highly efficient letter service at very short notice in the last major Post Office dispute, will my right hon. Friend confirm that if there is a major dispute the monopoly will be lifted immediately, at the beginning of the dispute?

Mr. Tebbit: I think that it is much better not to jump to the conclusion that there will be a major dispute. We should work for a sensible solution. I have made it plain that I entirely stand by the words of my right hon. Friend the former Secretary of State which I quoted in my statement. Should there be a dispute which suspends or gravely damages the mail service, I shall make early and quick decisions about the suspension of the monopoly.

Mr. Harry Ewing (Falkirk, East): Is the Secretary of State not aware that all that prevented the UCW and the Post Office reaching agreement on Saturday night on the operation of the OCR machine was the fact that in recent days the Post Office has thrown into the discussion the need to employ part-time labour? Will the Secretary of State accept that there is a suspicion now that the Post Office—today, unfortunately, joined by the right hon. Gentleman—is trying to pre-empt the presentation by the executive of my union, the UCW, to the annual conference in Bournemouth in May, of a much more flexible approach?

The relaxation of the monopoly did not operate in the way suggested by the hon. Member for Beaconsfield (Mr. Smith). The cost of delivering a letter by using a private company was 10 times greater than the cost of a postage stamp. After the 1971 dispute ended, hundreds of thousands of letters were found in the possession of private companies and subsequently had to be delivered by the Post Office. I hope that the Secretary of State will not turn a grievance into a full-scale industrial dispute.

Mr. Tebbit: I am astonished that the hon. Gentleman, who has some connection with the union, should say that the issue of part-time workers was thrown in over the weekend. It has been under negotiation for months and months. Neither the Post Office nor I can stop the executive of the hon. Gentleman's union putting constructive proposals to the conference in May. Indeed, we were overjoyed at the thought that some constructive proposals might result from the conference in March. Some progress was made, but unfortunately not on the important issues of a corporation-wide productivity agreement and part-time staff.

Mr. Andrew MacKay (Berkshire, East): Is my right hon. Friend aware that customers—especially companies that took part in the recently published CBI forecast showing great economic recovery—will be delighted to learn that in the event of serious industrial action this essential national service will be maintained?

Mr. Tebbit: Certainly. If the Post Office will not, or is unable to, deliver the mail, it would be unpardonable for us to permit the service to cease when there are options available to us.

Mr. Gregor MacKenzie (Glasgow, Rutherglen): Will the Secretary of State accept that the sensible way of reaching a settlement of the dispute is to permit the chairman of the Post Office and the general secretary of the UCW to get on with the discussions by themselves? Will the right hon. Gentleman also accept that veiled threats of breaking the monopoly do nothing to calm the atmosphere so that the dispute may be settled?

Mr. Tebbit: I absolutely agree with the right hon. Gentleman. The best thing that we can do is to let the parties negotiate together. However, the hon. Gentleman describes as a veiled threat about the monopoly what he should regard as an assurance given to the consumer.

Mr. Peter Bruinvels (Leicester, East): Would my right hon. Friend accept that the action taken by workers at the Mount Pleasant office was nothing short of industrial sabotage? Will he warn the UCW that unless it co-operates properly and ensures that the post is delivered on time the Post Office's monopoly will be very much in question, and that the Post Office is a natural candidate for privatisation?

Mr. Tebbit: My hon. Friend expresses himself somewhat robustly. I am a moderate and quiet chap. I say only that if the Post Office cannot or will not operate the mail service there will be an increasingly strong case for allowing others, who can and will, to do so.

Mr. Ian Wrigglesworth (Stockton, South): Will the Secretary of State agree that industrial action is in no one's interests, particularly when we remember the damage done by the previous industrial dispute both to the Post Office and to its workers? Can the right hon. Gentleman tell the House what the position of Post Office workers will be if the productivity agreement is adopted? Will they be worse off? Will there be any redundancies?

Mr. Tebbit: I understand that Sir Ronald Dearing has assured the union that there is no question of redundancies arising from the agreement. Part-time workers will be taken on at normal rates of pay. They will in this sense be permanent members of staff, not casuals.

It is difficult to say what will happen to each individual's pay. Some Post Office employees currently work very long hours of overtime. I do not know whether in future they will have the opportunity to work quite such long hours of overtime, or whether the extra productivity payments would make up the difference. Those are matters for negotiation, and the parties should be allowed to get on with the negotiations and sort them out.

Mr. Tony Favell (Stockport): Is my right hon. Friend aware that about half the mail of the firm of solicitors of which I am a partner is delivered through the private enterprise system? We use the private system because it is much cheaper than the public system, and only when mail is delivered by private enterprise can we guarantee that it will reach its destination on the following day.

Mr. Tebbit: I note what my hon. Friend says, as I hope will those concerned in the Post Office. It must have been quite a shock to the Post Office to read the recent report of the Monopolies and Mergers Commission, which could not confidently say that the Post Office letter mail was being operated in the public interest.

Mr. Jeremy Corbyn (Islington, North): This morning I received, unsolicited and unenveloped, a seven-page letter from the chairman of the Post Office explaining his side of the argument over Mount Pleasant. Did the Secretary of State authorise the distribution of that letter? If so, why did the Post Office not bother to put it in an envelope like every other item of correspondence that hon. Members receive? Will the right hon. Gentleman ensure that equal facilities are made available to the UCW to write to all hon. Members to explain the union's fears about the method of introduction of new technology, the threat to jobs, and the threat of post office closures implicit in the Government's strategy for the Post Office?

Mr. Tebbit: The ability of the UCW to write to hon. Members could only be threatened if industrial action prevented the mail from being delivered. I am therefore very glad that the industrial action has ended. I am sure that if the UCW wishes to write to hon. Members, the union knows the address and the form. Of course Sir Ronald Dearing did not have to ask my permission to write to hon. Members.

Several Hon. Members *rose*——

Mr. Speaker: Order. I thought that three hon. Members had risen. I will call those who have consistently been trying to catch my eye.

Mr. David Winnick (Walsall, North): Is the Secretary of State aware that so long as he heads the Ministry there is bound to be added anxiety and concern that the Post Office is being encouraged to pursue a policy of confrontation? When will the right hon. Gentleman understand that there is no effective substitute for negotiation between employers and trade unions without coercion?

Mr. Tebbit: For once, there is not much difference between the hon. Gentleman's view and my own. The right way to proceed is to get the parties together and to encourage them to negotiate and reach a constructive agreement that would be to the benefit, above all, of those who use the Post Office.

Mr. Kevin Barron (Rother Valley): If the Secretary of State implements his threat of breaking up the Post Office monopoly, can he guarantee to those who use the Post Office that there will be no increase in charges?

Mr. Tebbit: I have made no such threat. I have undertaken to the House that if mail deliveries are suspended I will give careful and early consideration to the means of maintaining the service to the public. That is an assurance to the public. It is a matter between the public and those who would offer the service. I do not think that the hon. Gentleman understands the real world; he has been in the Labour party for too long.

Mr. Nigel Spearing (Newham, South): Does the Secretary of State agree that the provocative manner in which the board and chairman of the Post Office have closed Crown and sub post offices, particularly in East and West Ham, bodes ill for the negotiations now in train? Will he have a look at the statement that he made concerning the optical machine now operating normally? Is the right hon. Gentleman aware that according to the information that I have received, there was an agreement to operate that machine experimentally, which has expired? If that is so, will he make a correction, or let me know if I am wrong?

Mr. Tebbit: The answer to the hon. Gentleman's first question is no. The answer to his second question is that

[Mr. Tebbit]

the machine is operating normally. It operates today in the way that it usually does. The letters go in, are read optically, and come out the other end. As I understand it, that is the normal way of operation.

Mr. Dave Nellist (Coventry, South-East): Is it not hypocritical for the Secretary of State to talk about the reliability of the service and its quality when the Post Office is closing Crown post offices and destroying local services, abrogating local and national agreements, and putting profit before public service? Should not the right hon. Gentleman have announced today that it was the responsibility of the management of the Post office to return to full consultation and negotiation with the UCW, before — if the angry mood of the Coventry postal workers is any guide—the dispute inevitably spreads?

Mr. Tebbit: I am sure that the hon. Gentleman will do his best to spread the dispute. But he should consider whether a refusal to operate the machinery effectively represents an ambition to put profit before service to the community. Many people would think so.

Mr. Bob McTaggart (Glasgow, Central): If the Secretary of State is concerned about givinga service to the community and preventing the hardship that is caused to many people through post office closures, will he use his good offices to instruct the Postmaster-General to cease the policy of sub post office closures? That policy is causing great hardship throughout the country.

Mr. Tebbit: The office of Postmaster-General was abolished even before the hon. Gentleman became a Member of Parliament. But the substantive point is that the proposed closures are subject to an extensive process of consultation. Not all the proposed closures are carried through, and I believe that the Post Office adopts an extremely responsible attitude towards its obligations in that respect.

Mr. Paddy Ashdown (Yeovil): On a point of order, Mr. Speaker. I apologise for delaying the House, but many Opposition Members were unable to hear the precise answer that the Secretary of State gave in response to the hon. Member for Islington, North (Mr. Corbyn). You will recall, Mr. Speaker, that the hon. Member for Islington, North asked whether the Secretary of State had given his permission for the chairman of the Post Office to circulate a letter. The Secretary of State either said he did, or he did not. We were unable to hear his reply. Could the Secretary of State clarify that point?

Mr. Tebbit: It may be for the convenience of the House if I make that point clear. I said that the chairman had no need or requirement to ask me for permission to circulate a letter. I did not give him permission to circulate. He did it entirely off his own bat.

English Channel (Fixed Link)

3.33 pm

The Secretary of State for Transport (Mr. Nicholas Ridley): I should like to make a statement about the Channel fixed link.

The House will know that in November 1984, I met the French Ministers responsible for transport to discuss the possibility of a fixed link across the English Channel. At that meeting we reaffirmed the willingness of the British and French Governments to take whatever steps might be necessary to facilitate the construction of a fixed link between the United Kingdom and France within the framework of the European transport network. We agreed that this project, for which essential political guarantees would be provided, should be financed without support from public funds or Government guarantees against commercial or technical risks and on the basis of conditions prevailing on the international financial markets.

We also agreed to establish a working group of officials of both Governments to draw up guidelines to potential promoters in order to give them a clear understanding of the requirements of the two Governments on, for example, safety and the environment, the undertakings that the two Governments would be prepared to give, and on any constraints affecting commercial exploitation. At the meeting on 29 November between my right hon. Friend the Prime Minister and the French President, these decisions were confirmed, and it was decided that officials would be instructed to report to Ministers by the end of February.

Officials delivered their report on 28 February, and on 20 March we held a further meeting with the French Ministers to agree the final texts of the guidelines and to decide certain further points. In particular, we agreed that the closing date for proposals would be 31 October 1985, and that the two Governments would aim to reach a decision around the end of the year, on which proposal, if any, they consider should be enabled to go ahead. We also agreed that we should begin contingency work now on those elements of the treaty which would be common to any form of link chosen.

I have placed copies of the guidelines—or, to give them their proper name, the "Invitation to Promoters"—in the Vote Office.

In saying this, I do not want hon. Members to think that we have prejudged the issues. When they have had time to study the guidelines, they will recognise my concern to ensure that there is adequate public consultation, that environmental, social and employment impacts are fully appreciated and that the financial conditions are fully met. All these matters will be carefully considered before the two Governments arrive at a decision.

I cannot yet tell whether a fixed link will be built across the Channel or not. What I can say is that the private sector now has a unique opportunity. We have reached full agreement with the French on the conditions which the promoters must meet. I wish the promoters well in this great endeavour.

Mrs. Gwyneth Dunwoody (Crewe and Nantwich): We welcome any suggestion of considerable investment in the infrastructure. Indeed, we have been asking the

Press Notice

Department of Industry

123 Victoria Street, London SW1E 6RB TEL: 01-212 5496/7

Ref: 147
July 16, 1980

POSTAL MONOPOLY

The following is the text of a statement made to Parliament today by Sir Keith Joseph MP, Secretary of State for Industry:-

"The House will recall that on July 2, 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 laid before Parliament on March 31, and published on April 1. The Government has been discussing with the Post Office its response to this report, and I intend to lay before Parliament shortly the Post Office's programme of action to meet the Commission's recommendations.

"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 target. 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.

"However, 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 in the Post Office Acts of 1953 and 1969. I have therefore decided that some changes are desirable. In coming to that decision I have taken into account 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 received by the customer.

Cont/.....

"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 subject to review by the Secretary of State. I propose that this minimum fee should initially be £1.00p.

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. Christmas Cards The Government proposes to amend the law so as to allow charitable organisations to deliver Christmas cards.

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 specify that a number of items are excluded from the definition of a letter so that those wishing to compete with the Post Office will not be deterred by confusion about the precise extent of its exclusive privilege.

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 there is no obstacle to individuals or companies delivering mail on their 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 demands and will, if justified, make appropriate relaxations of the monopoly.

Cont/.....

In addition, 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 further relaxations in respect of certain categories of mail. Moreover we shall seek powers to remove the monopoly either in a local area or nationally. These powers will rest in my hands. I would intend to use them in the event of industrial action within the Post Office which resulted in a cessation or serious decline in the quality of service. I would also use the powers if, after due warning, the Post Office failed for reasons within its control to satisfy me as to its performance in serving the public. In deciding whether to use my powers I shall take into consideration the Post Office's record in relation to productivity, unit costs, quality of service to the customer and its financial target. I am starting discussions with the Chairman of the Post Office on whether the targets for the quality of service of first and second class mail are sufficiently rigorous.

"I believe these measures will stimulate greater efficiency within the postal service. Taken together, they clarify the law, open up to competition some parts of the postal monopoly 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.

"These changes will require legislation and the Government will bring proposals before the House in due course".

004/4206

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke MP
Chancellor of the Duchy of Lancaster
and Minister for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

6TH July 1987

Dear Ken,

GIROBANK PAY

Thank you for your letter of 30 June.

I understand that the majority of these staff are employed in Bootle, an area of high unemployment where recruitment and retention is not difficult. In view of this I would have thought that a rather lower offer than that proposed by Girobank should be possible. The one they have in mind seems to owe more to comparability with clearing bank staff than their own recruitment and retention situation. There seems to be an opportunity here to put our message on geographic pay variations into practice and I would be grateful if Girobank could be asked to work to a negotiating ceiling of 5 per cent on average earnings, which would imply 4.75 per cent on basic rates.

I am copying this letter to the Prime Minister, E(PSP) members and to Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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THE CHANCELLOR OF THE DUCHY OF LANCASTER
AND MINISTER OF TRADE AND INDUSTRY

THE RT HON KENNETH CLARKE QC, MP

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

30 June 1987

GIROBANK PAY

Girobank has received pay claims for 1 July 1987 from its two major groups of staff: the National Communications Union Clerical Section and the Society of Civil & Public Servants. The two sides are due to meet on 6 July. Subject to your views I propose to tell Girobank that I have no objection to its proposals.

The claims comprise unspecified substantial increases in pay and a raft of improvements in various benefits and to the existing productivity scheme. In responding to the claims Girobank has in mind:

(a) the recent imposition by the main banks of a 5 per cent settlement for their comparable staff;

(b) the recent Post Office settlement with its main union, the Union of Communication Workers, of increases from 1 April of 5.1 per cent on basic rates (higher for the lower paid and 18 year olds);

(c) that Girobank managed to secure all the productivity improvements sought in last year's pay deal.

Girobank therefore proposes a limit of 5 per cent on basic pay. It also proposes to continue with its productivity arrangements for 1986 without conceding any increases in the share going to employees or the proportion being consolidated.

EC4BNG

CONFIDENTIAL

In exchange for such a deal Girobank intends to promote further productivity improvements by ensuring further increases in the number of part-timers at Bootle and breaking new ground by the use of temporary employees at seasonal peaks, together with the establishment of part-timers on a broad basis in the regional offices. Girobank also aims to redefine the job content of some grades to provide for some downgrading of posts and gain union co-operation for various O & M projects that are expected to produce staff savings.

While the productivity bonuses, if earned, will of course add to the paybill, Girobank expects the cost to be offset by other savings making a total paybill increase over the pay year of around 5.25 per cent. On the basis of management's performance in the last few years there is no reason to doubt Girobank's determination to achieve a settlement within the negotiating ceiling it has set for itself, and I therefore propose to tell Girobank that I would support a deal that includes an increase on basic pay no higher than 5 per cent.

I am copying this letter to the Prime Minister, E(PSP) Members and Sir Robert Armstrong.

KENNETH CLARKE

EC4BNG

999-49

ECBS

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No. 270 0020
270 0296

13 May 1987

Carolyne Akers
Private Secretary to the
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

NBPM

Dear Carolyne,

UCW

Thank you for sending me a copy of your letter of 11 May to David Norgrove.

I should confirm our telephone conversations yesterday and today, in which I conveyed the Chancellor's view that to arrange a written PQ as you proposed would be premature and is probably unnecessary, given the clear position, taken by the Government on a number of occasions, that the Secretary of State would be bound to consider suspension of the Post Office monopoly in the event of industrial action which interrupted the postal services.

This is something to which, at a later stage and if necessary, the Post Office management would be sure to draw attention.

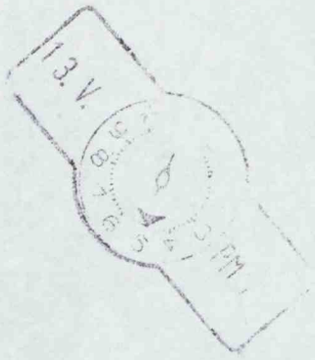
I am sending a copy of this letter to David Norgrove (No.10), John Turner (DEmployment) and Jill Rutter (PS/Chief Secretary).

Yours Sincerely,

Andrew Lansley

ANDREW LANSLEY
Private Secretary

POST + TEL –
Pug Neg. 4/80



FILE

DA

bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 May 1987

UNION OF COMMUNICATIONS WORKERS

The Prime Minister has seen your letter to me of 11 May proposing a Written PQ which would float the possibility of the Government using its powers to suspend the privilege of providing a letters service in the United Kingdom, if warranted. The Prime Minister would be content, subject to the views of colleagues, for this Answer to be given.

I am sending a copy of this letter to Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), John Turner (Department of Employment) and Jill Rutter (Chief Secretary's Office).

(DAVID NORGROVE)

Miss Carolyne Akers,
Department of Trade & Industry.

Q14

CC BS

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ *Secretary of State for Trade and Industry*

11 May 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1A 2AA

Dear David

I am writing to bring you up-to-date on the threat of industrial action by the Union of Communications Workers (UCW) which is likely to be decided at the UCW's conference opening on 17 May (a subsequent ballot would take around three weeks). The question of pay is not causing problems but deadlock remains on the Union's demand for a two hour reduction in the working week to 37 hours per week. Sir Ronald Dearing has commented that he is not prepared to give way on this point and thinks that there is a possibility of a strike. Such a strike would be the biggest since 1971.

This will inevitably raise the question of whether the Post office monopoly should be suspended in order to safeguard postal services. Subject to your views and those of copy recipients the next step would be to arrange a written PQ (draft text attached) placing the onus on the Post office to justify their current privilege and stating the possibility of the Government using its powers to suspend the privilege if warranted. I would be grateful for views by close on 12 May.

I am copying this letter to the Private Secretaries to Norman Tebbit, Lord Young and John MacGregor.

Yours

CAROLYNE AKERS
Private Secretary

PM content subject to views of colleagues — DTI informed 12/5 AJ

JG1BDD

Q To ask the Secretary of State for Trade and Industry what action he will take, in the light of the threat of industrial action in support of a claim for a shorter working week, to safeguard postal services.

A It is primarily for the Post Office Board to deal with industrial action by its employees. However, subject to certain derogations, the Post Office enjoys the exclusive privilege of providing a letters service in the United Kingdom; such a privilege must continually be justified and powers are available to suspend the monopoly. There are sound reasons for the monopoly and I would therefore not lightly suspend the privilege. But as I have stated on a number of occasions, those powers would be used in the event of industrial action within the Post office that resulted in a cessation or serious decline in the quality of service.

JG1BDY

003/2985

CONFIDENTIAL

cc BG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Geoffrey Pattie MP
Minister of State for Industry and Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

7TH May 1987

Dear Geoffrey,

POST OFFICE PAY

top enclosure

NBPM

Thank you for your letter of 1 May.

I am pleased that the Post Office have produced an offer within the 5 per cent average earnings ceiling I agreed to in earlier correspondence and that the UCW is balloting its members with a recommendation to accept.

I note the position on a reduction in working hours and on the opening offer to the CMA. I should be grateful to be kept informed of progress.

I am copying this letter to the Prime Minister, E(PSP) members and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

POST AND TELE: Future & P.O. pt 10.

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From the Minister of State
for Industry and Information Technology

RT HON GEOFFREY PATTIE MP

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

7 May 1987

Dear John

POST OFFICE PAY

In your letter of 9 April you agreed that the Post Office should be given authority to negotiate within a ceiling of a 5 per cent increase on paybill.

I am pleased to be able to report that negotiations since then have produced a possible pay settlement within the 5 per cent ceiling on which the Union of Communication Workers (UCW) is going to ballot its members with a recommendation for acceptance. I understand that the union is aiming to arrange the ballot as soon as possible with the result available by Wednesday 13 May - before the start of its annual conference on 17 May.

The Post Office's revised offer consists of increases from 1 April of 5.1 per cent on basic rates or £5.30, whichever is the greater, with an additional £4.70 for 18 year old postmen and clericals. Consistent with last year's settlement, the increases do not flow through to overtime and other rates until 1 July, and with some restructuring of the pay of one or two minor grades this reduces the increase on paybill to a shade under 5 per cent.

AP8/AP8AAS

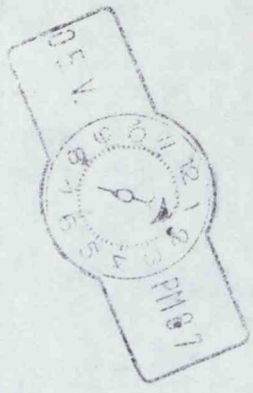
Negotiations on a reduction in the working week are continuing separately. The Post Office's formal offer is for a 1 hour reduction from 4 January 1988 with the cost fully recovered. The UCW has rejected this, although it seems to have drawn back from its earlier insistence of at least a 2 hour reduction. As an alternative, the Post Office has informally proposed a 1 hour reduction from April 1988 with a small proportion of the cost (perhaps 10 per cent) not recovered. In the light of further informal discussion of this proposal, in particular on the means by which the bulk of the cost of the reduction would be recovered, the UCW intends to resume formal negotiations following debate of the issue at the annual conference. In any event the Post Office position will ensure that there will be no effect on the 1987/88 paybill of any concession on hours.

Subject to the outcome of the membership ballot on the pay offer and conference discussion on hours, the possibility of national industrial action by the UCW has diminished. But this is not to say that the industrial relations situation in the Post Office will be entirely calm. The situation remains uneasy with localised unofficial action, mainly connected with the measures to improve efficiency, still occurring almost daily and likely to continue to do so.

The Post Office has made an opening offer to the Communication Managers' Association of 4.5 per cent which the union has taken away to consider. However, further progress will depend on developments with the UCW.

I am copying this letter to the Prime Minister, E(PSP) members and Sir Robert Armstrong.

GEOFFREY PATTIE



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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Geoffrey Pattie MP
Minister of State for
Industry & Information Technology
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H OET

9th April 1987

Dear Geoffrey,

NBPM

POST OFFICE PAY

Thank you for your letter of 8 April.

I am content for you to endorse the Post Office's proposed approach to seek a settlement of up to the 5 per cent ceiling sought by the Board which must include any concession on working hours. This is the maximum that I am prepared to endorse: it is slightly higher than most other nationalised industries are aiming to settle at. However, given that there may be a need to make a concession on working hours I can agree to a 5 per cent ceiling in this case.

I am also content for the Post Office to make a similar opening offer to the CMA grades as was made to the UCW. As usual I would be grateful to be kept informed of progress.

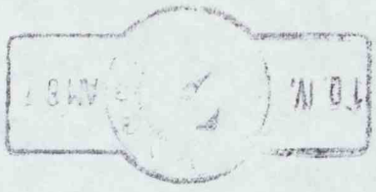
I am copying this letter to the Prime Minister, E(PSP) Members and Sir Robert Armstrong.

Yours ever,

JOHN

JOHN MacGREGOR

POST & TELS: Pay in P.O: April 80



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CCBG.

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From the Minister of State
for Industry and Information Technology

RT HON GEOFFREY PATTIE MP

Rt Hon John MacGregor OBE MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBM.

8 April 1987

Dear John

POST OFFICE PAY

WILL REQUEST IF REQUIRED

Thank you for your reply to my letter of 28 March. I understand and accept the need to encourage the Post Office to secure a moderate and affordable pay settlement, and as I said in my letter Sir Ronald Dearing and his colleagues are well aware of this.

The Post Office met the Union of Communication Workers (UCW) yesterday (6 April) and made an initial offer of an increase of 3.9 per cent on basic pay. The UCW rejected this. The two sides are due to meet again on Thursday afternoon (9 April). As the Post Office has now reached the negotiating limit set in your letter, it will have nothing new to offer unless we quickly agree to a higher limit.

Unless we are prepared to back the Post Office Board's judgement now I believe we shall jeopardise the prospects of a satisfactory settlement. The Post Office wants to secure a deal if possible before the Annual Conference of the UCW (17-22 May). I need hardly remind you of the continuing fragility of industrial relations in the Post Office, and the propensity of the UCW at local level to resort to industrial action. Against that

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background the Post Office takes the view that, while obtaining a satisfactory pay settlement will never be easy, it will certainly be much more difficult after the Conference. Pay negotiations will be a key Conference issue, and it is likely that national officials will come away with their room for manoeuvre severely constrained by Conference decisions, including a requirement to seek a mandate from the membership for strike action in June in support of the union's claims.

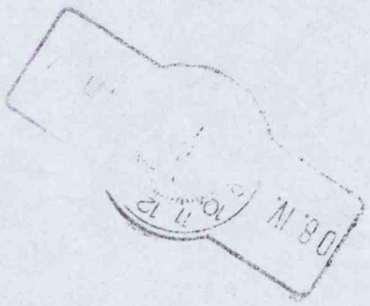
If we require the Post Office to obtain our step-by-step clearance on further offers up to 5 per cent it will seriously damage the prospect of an acceptable deal being struck before the May Conference. It also risks exposing our role on Post Office pay.

I should therefore be grateful if you would urgently agree to my endorsing the Post Office's proposed approach, namely to seek a settlement up to the 5 per cent ceiling sought by the Board. I shall of course make it plain that any concession on the working week will also need to be accommodated within the paybill increase.

You will also wish to know that the Post Office is opening negotiations early next week with the supervisors' union, the Communication Managers' Association. The Post Office proposes to open at the same level as the recent offer to the UCW.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

GEOFFREY PATTIE



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CONFIDENTIAL

cc BG

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

27 March 1987

The Rt Hon Paul Channon, MP
Secretary of State for Trade and Industry

NBPM.

will request: I regd.

1986-87 PAY: POST OFFICE

Thank you for your letter of 23 March.

The approach that the Post Office have in mind of special supplements targeted to particular problem localities is very close to the plans we have in mind, in due course, for the non-industrial Civil Service. (These were set out in detail in the minute and accompanying working party report that I sent to Cabinet colleagues on 9 March). They include discretion, within centrally approved limits, for Departments to pay supplements to particular grades in particular offices or localities where there are recruitment and retention problems. I am therefore very pleased to see that the Post Office seem independently to have reached the view that this is the right approach and I hope they will soon bring forward proposals. As I said in my earlier letter, I accept that the timing is a matter for Post Office management.

I am copying to the Prime Minister, Cabinet colleagues and to Sir Robert Armstrong.

NIGEL LAWSON

CYBG

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

NBPM

Rt Hon John MacGregor OBE MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

27 November 1985

Dear John

NATIONAL GIROBANK PAY

In my letter of 20 September about National Girobank pay, I said that Sir Ronald Dearing had been given clearance for a revised pay offer of 5.8 per cent overall to the National Communications Union - Clerical Section (NCU)

In the event, when negotiations resumed it was decided to pursue the discussions on part-timers separately, and the question of the additional element did not arise. As my officials have already told yours, the NCU accepted the terms previously offered. This means an award of 5.3 per cent overall: the increase on basic rates will be 5.5 per cent, but the cost is offset by the abolition of certain allowances and other changes that together will claw back 0.2 per cent.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever

John

GEOFFREY PATTIE

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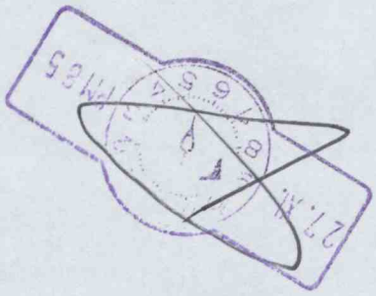

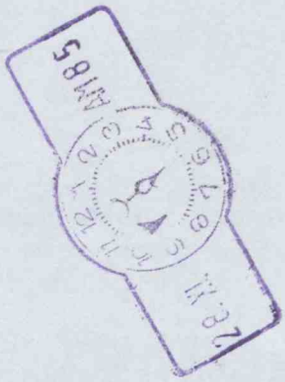

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CC 20

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

NBPA
2019

20 September 1985

Dear John

NATIONAL GIROBANK PAY

Thank you for your letter of 18 September. Attached

As foreshadowed in my earlier letter I met Sir Ronald Dearing last night to discuss the proposed pay package which National Girobank have in mind to offer to the National Communications Union - Clerical Section (NCU). Sir Ronald impressed on me the commercial and strategic importance of extending the use of part-timers in Girobank. If successful, this development will enable Girobank not only to replace some overtime working but also to handle increasing levels of business without commensurate increases in accommodation and facilities. In industrial relations terms, too, the use of part-timers is likely to bring useful benefits.

Sir Ronald told me that he believed the risk of the proposed settlement having adverse repercussions on the Post Office grades was remote: the character of the businesses and their productivity records were so different that he does not envisage any future difficulty from that point of view. He also believes that the proposed offer stands a very good chance of clinching a settlement.

In the light of Sir Ronald's assurances, and the views you expressed in your letter, I told Sir Ronald that Girobank may put this revised offer to the NCU.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours ever

GEOFFREY PATTIE

999-5

JO3AEP

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon John MacGregor OBE MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

18 September 1985

Dear John

NATIONAL GIROBANK PAY

In my letter of 24 June to Peter Rees, I described the opening stages of National Girobank's pay negotiations with the National Communications Union - Clerical Section (NCU).

Following the union's rejection of Girobank's initial offer of 4.5 per cent the management have continued negotiations within a ceiling of 5.5 per cent on basic pay, offset by a reduction of 0.2 per cent as a result of proposed changes to the existing productivity scheme. The overall effect would be an increase of 5.3 per cent in earnings, within the level at which the Post Office settled with the Union of Communications Workers. However, the NCU have rejected the proposal, which was part of the pay package, to pay staff salaries through Girobank accounts.

The Girobank management are now considering further amendments to the terms of the productivity agreement; in return for the union's agreement to an extension of the use of part-time workers, an additional 0.5 per cent earned through productivity gains would be consolidated into pay. Although this proposal will take the negotiating ceiling to 5.8 per cent, the management are eager to increase the use of part-time workers, which has

SE3/SE3AAU

proved extremely successful in other areas of Girobank. The management propose to use part-timers in the customer services department by operating a "twilight shift" to answer customer enquiries in the early evening. This will both enhance the efficiency of the existing office space and equipment and improve the service offered by Girobank. The extended use of part-timers will also offer new job opportunities and, on the basis of past experience, is likely to weaken union militancy.

I hope to see Sir Ronald Dearing on Thursday 19 September to discuss his proposals, but in the interim I am sending this letter around colleagues. As you know, Girobank is required to give the Government at least seven days' notice of any proposal to make a new pay offer.

I shall write to you further in the light of my meeting with the Chairman of the Post Office, but I should say at this stage that I see some force in the argument that these negotiations should be seen in the context of our plans for Girobank as a whole.

I would be grateful for any immediate reactions you or copy recipients might have.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

GEOFFREY PATTIE

M12/M12AES

999-49

023/106

CONFIDENTIAL

NBPM.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq
Minister of State for Industry and Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

18 September 1985

Dear Minister

will reg if req.
(I think we have already had a copy of this).

NATIONAL GIROBANK PAY

Thank you for your letter of 18 September.

As you say, we shall need to consider the Post Office's latest proposals in the light of your meeting with Sir Ronald Dearing. However, my immediate reaction would be to urge the Post Office to try and stick within the existing 5.3 per cent ceiling. As you point out, the Post Office main settlement was at this level and if the National Girobank staff achieve a higher settlement we may be faced next year with a demand for the Post Office grades for a "catching-up" increase.

However, if the proposed increase was likely to be sufficient to secure a settlement with the staff, we could probably just about live with it. I would, therefore, suggest that you ask Sir Ronald Dearing at your meeting tomorrow whether an offer at this level would be enough to secure a settlement.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstong.

Yours sincerely

RJBroadbent

for JOHN MacGREGOR

CONFIDENTIAL (Approved by the Chief Secretary)

CONFIDENTIAL

CCND

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

NBPM

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

24 May 1985

Dear Nigel

POST OFFICE PAY

Sir Ronald Dearing, accompanied by his Board Member for Industrial Relations, Mr Ken Young, called to see me on 20 May to give notice of his intention to resume negotiations with the UCW next week with the objective of conducting major and intensive negotiations with a view to reaching a settlement by the end of the week.

Sir Ronald outlined his proposed strategy but made it clear that this was contingent on a satisfactory vote on the business efficiency package at this week's UCW Conference, which now appears to have been achieved.

The present offer is for a 4.8% increase in rates (and the same on earnings). This has been rejected by the UCW who are calling for at least an RPI increase. Sir Ronald said that it was their objective to concentrate discussion around the 6.1% RPI figure at the time of the UCW rejection of the offer rather than the present 6.9%. The approach which Post Office negotiators were proposing to adopt was to allow themselves to be forced gradually to increase the offer with a view to limiting the increase in basic pay to around 5.3%. However, Sir Ronald said that the Post Office view was that a settlement on this basis was not achievable and that they were looking at options for a low-cost method of bridging the gap between the 5.3% and the RPI settlement that the UCW will seek.

He therefore favoured reviving the RUC bonus which formed part of the 1982 settlement and rewarded the workforce with 50% of any RUC achievement above target. It resulted in a £50 per head

MY3/MY3AAT

bonus on the basis of 1982/83 RUC performance. The bonus has not been repeated in subsequent pay rounds. An attraction of such a bonus is that it does not flow through into overtime, other productivity or pension payments and does not form part of the base for next year's settlement. The Post Office has not yet worked up the precise details but were thinking in terms of £50 per head once again which would be worth 0.5 - 0.6% on rates but 0.3 - 0.4% on earnings.

Sir Ronald took the view that a settlement that the Union could represent as 5.8 - 5.9% was the best that was realistically attainable in the light of recent movements in the RPI and the recent settlements in water and electricity which he quoted to me. He felt that it was important to move quickly after the UCW Conference to try to reach a negotiated settlement on pay. The agreement on the business efficiency measures was subject to a ballot of individual members as was the pay settlement; and the business efficiency deal reached just before Easter requires approval by a ballot before 17 June. There is an incentive to get both matters resolved at once.

I repeated to Sir Ronald the need to achieve as low an agreement as possible and that he should treat the 5.3% increase very much as an upper limit which he should be very reluctant to reach. The Government would not want the settlement presented as being any higher. I also told him that it was absolutely essential that he should do everything possible to avoid the linkage between the main pay settlement and the lead-in payments in respect of the efficiency package that could lead to claims of a 10% settlement. He accepted that point. I also said that I would like more details of the RUC bonus before it was tabled.

Norman Tebbit will be meeting Sir Ronald on Wednesday in order once again to stress the need for a low settlement.

As I said in my letter of 18 April, the productivity package is a major prize for the Post Office and will represent the most significant step forward for management in modern times. I am disappointed that a settlement below last year's level does not seem possible but I agree with Sir Ronald that recent RPI figures and settlements elsewhere in the public sector make that an unrealistic objective if the major productivity gains are not to be lost.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

Yours ever

Geoffrey

M12/M12AES

GEOFFREY PATTIE

999-49

CONFIDENTIAL

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(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

8 May 1985

Dear Nigel

POST OFFICE PAY

Your officials were informed on Friday that the Post Office had notified us of its intention to increase its offer to the UCW in a negotiating meeting arranged for Friday 10 May.

The pace of the negotiations is beginning to quicken. We were told that the Post Office intended to hold its position for one more meeting but that the Board now took the view that they should improve the offer to 4.8% on Friday. They regarded it as important that negotiations should not have reached an impasse before the UCW conference and, in the light of recent public sector settlements - for example in the electricity industry - they believed that 4.8% was the lowest realistic figure to have on the table at the time of the conference.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robert Armstrong.

Yours ever

Jeffrey

GEOFFREY PATTIE

MY1/MY1ABJ

999-5

M05

CONFIDENTIAL

NBPM
AT 2314

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

The Rt Hon Norman Tebbit MP
Secretary of Trade and Industry
Department of Trade & Industry
1 Victoria Streert
London SW1H OET

22 April 1985

Dear Norman

POST OFFICE PAY

I have read Geoffrey Pattie's letter of 18 April, which crossed with Peter Rees' letter of 19 April to you.

Subject to the proviso which Peter makes about financing in his letter, I agree with the opening offer which Ron Dearing has proposed and welcome the stress Geoffrey has placed on the need to aim for a settlement lower than last year. I should be grateful to be kept closely in touch with the progress of these negotiations, and to be consulted in advance if and when Ron Dearing wishes to improve on the opening offer.

Presentation of these negotiations clearly needs careful handling. I therefore hope the Post Office Board will do whatever is necessary to avoid giving the misleading impression to outside groups that the productivity lead-in payments should be added to the pay offer to produce an overall figure approaching 10 per cent this year. The two need to be kept quite distinct.

I am sending copies of this letter to the Prime Minister, to the other members of E(NI), and to Sir Robert Armstrong.

Yours Nigel

NIGEL LAWSON

Post + Tels April 80

Ray

23 APR 1985

NSPM AF 19/4 CC/00.

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

18th April 1985

Dear Nigel

POST OFFICE PAY

Sir Ronald Dearing came to see me this evening accompanied by his Board Member for Industrial Relations, Ken Young to discuss the offer which they propose to make when they resume negotiations with the UCW next Tuesday.

The settlement date is 1 April and negotiations have been delayed this year while the talks on productivity were concluded. At a preliminary meeting last week to discuss the UCW claim for substantial increases, the Post Office made it clear that any settlement would be conditional upon the Annual Conference beginning 19 May accepting the full productivity package, including the recruitment of additional part-time and casual staff and the mandatory extension of the current productivity scheme to cover all Mails employees. The General Secretary of the UCW, Alan Tuffin, has told the Post Office privately that he would not wish to go to his Conference with a conditional deal on pay and the Post Office will therefore play the negotiations long.

Sir Ronald explained that the present industrial relations climate was very brittle. A local dispute at Northampton led to a walkout which resulted in mail being diverted to neighbouring offices. This mail was immediately blacked with the result that some half a dozen offices were out by late afternoon. Against this background and in the context of the major prize that is at stake from securing the productivity package, Sir Ronald told me that he would not want to make a derisory opening offer on Tuesday. He therefore proposes to open at 4.5% but, depending on the flavour of the meeting, the Post Office may go for a slightly lower figure. He undertook to come back to me before advancing on the opening offer.

AP3/AP3ABL

The productivity package is a major prize for the Post Office and will result in changes in working practices that are essential to moving the Post Office forward in terms of efficiency and quality of service. In my view, Sir Ronald is pursuing the right tactics to secure acceptance of the package without seeking to pay an unduly high price.

I am copying this letter to the Prime Minister, members of E(NI) and to Sir Robert Armstrong.

Ron Dearing was told at my previous meeting with him about pay that I expected him to aim for a settlement lower than that of last year which was 4.9%.

Yours ever

Geoffrey

GEOFFREY PATTIE

M12/M12AES

999.49

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

19 February 1985

Dear Nigel

POST OFFICE PAY AND INDUSTRIAL RELATIONS

I discussed the question of the main UCW pay settlement with Sir Ronald Dearing when he came to see me recently. The settlement date is 1 April and negotiations with other Post Office unions tend to await developments in the UCW negotiations.

I stressed the importance that we attach to having seven days' notice of any offer that he intends to make and went on to argue that he should be looking for an opening offer of no more than 3 per cent and an eventual settlement well below the 4.9 per cent of last year. He agreed to come back for a further discussion on his negotiating strategy when he was closer to beginning negotiations on the main pay settlement. But he said that he had not turned his mind to this question in advance of a UCW Special Conference scheduled for 4-6 March which will discuss a major package of industrial relations reform.

The MMC, in its report on the letter post services published last September, identified a number of areas where it was essential for the Post Office to make progress in removing restrictive union practices. The Post Office had agreed with the UCW in the course of last year's pay round that they would hold discussions on the removal of these restrictions and on a number of items which the union wished to raise with management. These negotiations took place in the autumn but the UCW were unable to make progress in the face of binding conference decisions and the Executive are therefore holding the forthcoming special conference to seek approval for a more realistic negotiating position.

FE2/FE2AAR

The negotiations have centred on a package that would involve the UCW in lifting restrictions on the effective use of letter mechanisation equipment and on new technology generally, and in its agreeing to dicuss new productivity and wage agreements. In return, the Post Office will consider financial incentives related to the savings that will result from increased productivity and the removal of the existing restrictions but also involving some pre-payment. The Post Office has also agreed to discuss some movement on the question of hours. The intention is that there would be discussion on the possibility of a national enabling agreement but that any movement on hours would be by local agreement and would be implemented only if it were self-financing from the workforce's share of the financial savings and then only retrospectively.

The Post Office have entered these discussions on the basis that any agreement should result in benefits not only to the Post Office and their staff but also to their customers. I intend to discuss this further with Sir Ronald immediately following the UCW Conference.

Copies of this letter go to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

GEOFFREY PATTIE

M12/M12AES

CC NO

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

David Barclay
10 Downing St
London SW1

Prime Minister (2)

p.a. sms
23/11

22 November 1984

Dear David,

NATIONAL GIROBANK

As I reported in my letter of 16 November, a secret ballot of CPSA members was held on their leadership 's recommendation to accept the Girobank's revised offer.

I can report that the result was overwhelmingly in favour of acceptance - 3538 votes for and 162 against. Normal working has now been resumed.

I am copying this to private secretaries to members of the Cabinet and Richard Hatfield.

Yours
Neil

N M McMILLAN
PRIVATE SECRETARY

NO4/NO4AAO

999-5

POST & Tels

Pay

23 NOV

~~Echo~~

April 82

CONFIDENTIAL

JR

10 DOWNING STREET

From the Private Secretary

19 November 1984

GIROBANK: POSSIBLE INDUSTRIAL ACTION

Thank you for your letter of 16 November. The Prime Minister has noted with satisfaction the agreement reached with the CPSA on a basis for ending the dispute at Girobank.

(DAVID BARCLAY)

Neil McMillan, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

CC NO

DEPARTMENT OF TRADE AND INDUSTRY
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DMW

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

David Barclay
10 Downing Street
SW1

Prime Minister (2)

This seems very satisfactory.

DMB
16/11

16 November 1984

Dear David,

GIROBANK: POSSIBLE INDUSTRIAL ACTION

As foreshadowed in my Minsiter's minute of 9 November, negotiations with the CPSA took place last weekend. These resulted in agreement on a basis for ending the dispute. Membership meetings are being called for Monday and Tuesday of next week which will be followed by a secret ballot on a leadership recommendation to accept the revised Girobank offer and ther is confidence that the ballot will result in a settlement. This position has been reached with no significant concession by management on the main pay and productivity package but by the conclusion of separate discussions which had been going on for some time on more flexible working arrangements in return for a slight improvement of individuals' leave entitlements. The new arrangements should bring a net cost saving to the bank.

I am copying this minute to private secretaries to members of the Cabinet and to Richard Hatfield.

Yours,

Neil

N M McMILLAN
PRIVATE SECRETARY

NO3/NO3AAT

999-5

POST + Telecom: Pay in PO: April 80.

JU481

SECRET

PRIME MINISTER

GIROBANK: POSSIBLE INDUSTRIAL ACTION

As foreshadowed in my minute of 7 November, the strike ballot of CPSA members at the Girobank Headquarters at Bootle has produced a majority in support of industrial action. The precise figures have not yet been announced but the margin is said to be about 500 on a vote of some 4,000.

2 The margin is slimmer than widely expected and I understand that since the result became known the National Executive - apparently with the agreement of the local branch - have asked to meet management tomorrow to negotiate. The management have agreed to do so. No publicity is being given to this development but it does perhaps give cause for a little optimism that industrial action will be averted.

3 If industrial action does take place, Girobank management expect the first step to be a one-day total strike on 13 or 20 November (Tuesday being the Girobank's busiest working day), followed by selective action. The view of Girobank is that an indefinite all-out strike, even if limited to 600 cheque-processing staff, could force the Girobank to close within a week or so. But the management believe that the workforce will not be pushed that far by the local CPSA leaders. The

SECRET

local officers - with a strong Militant Tendency element - have fostered the belief that management will concede quickly following a one-day strike. The management will not do so and have been preparing contingency plans on that basis.

4 In my earlier minute I suggested that industrial action could have a major impact on personal customers. But I am now assured that contingency arrangements already in hand will ensure that personal customers do not suffer any significant inconvenience. Discussions are in progress with the other clearing banks to arrange for the clearance of personal customers' cheques. Existing arrangements for computerised transfers will not be adversely affected.

5 The management's strategy will be to try to match the service to the resources available. Priority areas will be determined on a day-to-day basis and staff will be switched as necessary. The first shedding of workload has already occurred with the request to its major corporate customer to take its cheque business away: this customer accounted for 28 per cent of the Girobank's cheque transactions and once lost, will not be recovered. However, its disappearance will enable Girobank to cope with the seasonal workload in the run-up to Christmas. After that Girobank expects to declare 150 redundancies and will ensure that the link with the current industrial action is not lost on the staff.

6 The Treasury and the Bank of England have been kept fully informed of developments and are satisfied that the banking system has sufficient capacity to cope even with the total disappearance of Girobank.

7 It is possible that events at Bootle will give rise to questions to your and Departmental press offices over the weekend or during the several opportunities in the House next week. I propose that we should generally adopt the line that this is a matter for the management and staff of National Girobank to resolve. But, if pressed, we would have to say that the banking system could cope even with the closure of Girobank if that should be the effect of the proposed industrial action.

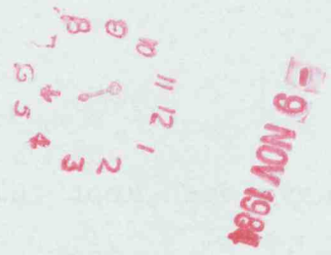
8 I am copying this minute to members of the Cabinet and Sir Robert Armstrong.

Geoffrey Pattie

GEOFFREY PATTIE

9 November 1984

P.O.



CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

9 November 1984

The Prime Minister has now seen your Minister's minute of 7 November about possible industrial action at Girobank. She has asked that as a contingency against industrial action closing Girobank, the possibility should be investigated of arrangements with other banks to take over business either temporarily or permanently. No doubt you will keep us in touch with the situation.

Tim Flesher

Neil McMillan Esq
Department of Trade and Industry

CONFIDENTIAL

If this Minister goes ahead - it will close Girobank down. What arrangements can we make with other banks to take over the business either temporarily or permanently?

Prime Minister (2)

This is very sad for Girobank who have been doing well recently in developing the business.

AT 8/11

SECRET

PRIME MINISTER

GIROBANK: POSSIBLE INDUSTRIAL ACTION

Sir Ronald Dearing and Mr Sam Wainwright, Managing Director of Girobank came in this morning to warn me of a threat of potentially damaging industrial action by clerical staff at the Girobank Headquarters at Bootle, who make up the overwhelming majority of Giro employees.

There has been an overtime ban in operation at Bootle since the extreme group of CPSA officials there (dominated by the Militant Tendency) representing the clerical grades, rejected a management offer (which was recommended by the CPSA National Executive) of 5% and the possibility of a further 0.25% next January in return for certain productivity improvements. The local CPSA is holding out for 5.45% back-dated to 1 July without any new conditions and with increased holiday entitlement. Their resistance to their National Executive's recommendations seems largely politically motivated, and Sir Ronald Dearing is unwilling to compromise since to do so would risk re-opening agreements already settled with the other Post Office unions and strengthening the Militant Tendency's influence. The result of a strike ballot will be known on Friday 9 November and all indications are that, with a good deal of coercive action by the local branch, the staff will vote in favour of industrial action.

The results of this could be serious. Already, the overtime ban has resulted in Girobank having to turn away 10,000 applications a week for personal accounts, and to tell a number of its larger corporate customers that it can no longer reliably handle their business. This has already resulted in one major company removing its business from Girobank. If there is an all-out strike, Girobank would no longer be able to process Giro cheques made out by customers, nor to credit or debit any of its personal customers' accounts. Apart from its impact on Government and corporate customers, particularly the nationalised utilities, the effect on the personal customer with his or her salary paid directly into a Giro account could, I believe, cause a public outcry. While the Post Office would continue to allow personal cash withdrawals at its counters up to the normal £50 every two days, the Girobank could not honour cheques made out to third parties, or transact any standing orders for such things as mortgage repayments or household bills. I have asked my officials to consult the Treasury and the Bank of England urgently to discuss possible contingency arrangements. Sir Ronald is afraid that the breakdown in

NO2/NO2AAC

confidence which would result from this action would cause the Girobank to lose the bulk of its business irretrievably.

If there is a vote on 9 November for industrial action, Sir Ronald expects that the National Executive, which has effectively lost control of its Bootle branch, but is still bound by its decisions, will wish to seek further talks with the Girobank management before taking further action. The management will agree to talk, but Sir Ronald is unwilling at this stage to make further concessions. He has undertaken to keep us informed of developments as they occur. I am copying this to members of the Cabinet and Sir Robert Armstrong.

GEOFFREY PATTIE

7 November 1984

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF7007

Secretary of State for Trade and Industry

30 July 1984

CONFIDENTIAL

NBPM
AT
31/7

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

D Nigel.

BT PAY

You will recall that my letter of 13 July reported that BT would offer 5.2 per cent to the POEU and STE.

2 These unions have now accepted this offer. It is a straightforward 5.2 per cent on basic rates, and since any other changes are marginal will simply add 5.2 per cent to average BT earnings. The pay bill should go up by less as BT shed staff. This settlement covers two-thirds of BT's employees.

3 BT have, I understand, offered the same deal to the UCW, the CPSA, and the CMA. The UCW executive are recommending this to their members and BT expect the CPSA to do likewise. The CMA have accepted the offer. While we might have preferred a lower offer to these smaller groups, I think we must accept the overwhelming advantages of making a reasonable settlement now, well ahead of privatization.

4 I am sending copies of this letter to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

Yours

NORMAN TEBBIT

POST + TEL. Pay Negotiations

April 80

CONFIDENTIAL FILE da

10 DOWNING STREET

From the Private Secretary

16 July 1984

British Telecom Pay Negotiations

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 13 July. She has noted developments on BT pay and accepts that, in the last resort, it may be necessary to agree an offer worth 5.2%.

I am copying this letter to David Peretz (HM Treasury), David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

Prime Minister
"To note these developments. Perhaps we could ask BT if there is any way their package can be costed at 5.1% to keep it below the miner's offer."
Duty Clerk pp KT.

①

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF6968
Secretary of State for Trade and Industry

13 July 1984

Yes MT

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Nigel,

BRITISH TELECOM PAY NEGOTIATIONS

British Telecom's pay negotiations with the POEU and their other unions have reached a decisive stage. Since the POEU's Annual Conference (at which, as you know, a Broad Left dominated Executive was re-elected) further discussions have taken place as a result of which BT's latest offer is for a combination of increases in pay rates and lump sum payments, amounting to an addition to the average workers' earnings of 4.9 per cent. At the latest negotiating meeting earlier this week, this offer was rejected by the POEU who indicated that at their next Executive meeting on Tuesday, 17 July, they would be considering a programme of industrial action in support of their original claim for more than 8 per cent.

2 BT judge that, against the background of heightened union militancy created by recent developments in the coal dispute and the dock strike, and bearing in mind the political complexion of the POEU Executive, the risk of industrial action has to be taken very seriously. They would not expect an all out strike, but rather measures such as an overtime ban and selective action at sensitive sites, such as their main computer centres. They are determined to respond strongly, as they did in the face of the POEU action last year, but they believe that their chances of achieving a successful outcome will depend crucially on whether the moderate majority of their workforce and the first level or two of their management consider that a reasonable offer on pay has been made. Their view is that in the light of recent public sector

developments they will not carry the majority with them if they hold to their present offer. I have therefore been asked for my view on a proposal that they should improve their offer to an average of 5.2 per cent (for the bulk of the POEU members this would be paid as a straight increase on rates, though for some of the lower paid members of other unions BT would continue with a combination of a lower rate incraese plus a lump sum, so widening the differential on rates and slightly lowering the level at which next year's negotiations would start). This further improvement in their offer would add about £6 million to BT's annual pay bill.

3 This is clearly an unwelcome development. Like you, I had been hoping that this year BT would succeed in reaching a settlement at a level rather below the public sector average. It is BT's firm view however that this is no longer feasible; even with the improved offer they are now contemplating they would not expect to secure agreement with the POEU, but they believe they would be able to withstand such industrial action as developed and they would be ready at the right moment to implement the pay increase unilaterally.

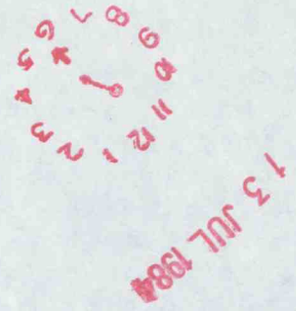
4 My reluctant conclusion is that in present circumstances I should tell Sir George Jefferson that if he judges it necessary we should be prepared to see him increase his offer to 5.2 per cent, but absolutely no further. I should be grateful to know whether you agree. If an improvement to BT's offer is to be made, the best tactics would obviously be to do so before the POEU Executive decide on industrial action rather than in apparent response to such a decision. I hope therefore that you will be able to let me have your reply as early as possible on Monday, 16 July.

5 I am sending copies of this letter to the Prime Minister and the Secretary of State for Employment and to Sir Robert Armstrong.

Yours

NORMAN TEBBIT

B Telecan



CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
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JU485

Secretary of State for Trade and Industry

6 June 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Prime Minister (2)
To note
AT 6/6

Dear Chancellor of the Exchequer,

POST OFFICE PAY

The Post Office have reached a provisional agreement on pay with the UCW Negotiating Committee. This has been put to the full union executive. They have agreed to recommend it to their members and it now becomes subject to ratification by a ballot of members which is estimated to take four to five weeks.

2 The agreement reached would add 4.9% to the Post Office pay bill in respect of UCW grades this year and slightly more (but still less than 5%) in a full year. It comprises 4% on rates from 1 April 1984 (the settlement date) for all UCW grades plus fully consolidated monetary additions of between £56.88 and £81 for staff on the adult scales depending upon grade. The monetary addition for 16 - 18 year olds is smaller. The overall average increase in basic rates is 5.2% but between 5.5% and 5.7% for the lowest paid. The pay bill and average earnings effect is 4.9% because of a restructuring of overtime rates whereby weekday overtime will only attract double rates after 14 hours overtime have been worked. There is to be no movement, nor any commitment even to discuss movement, on the claim in respect of hours, holidays, internal differentials or adult rate at 18.

3 The Post Office have presented the agreement as representing an increase of 4.9% on the pay bill but the UCW will undoubtedly argue that it is worth 5.2% on basic rates, not taking account of the overtime restructuring. This is because anything less would be transparently inconsistent with last month's Conference decision to take industrial action in support of a pay claim of at least 5.2% and at least one hour off the working week; it will not be simple for the executive to commend this package to their membership.

CONFIDENTIAL

4 The settlement is clearly higher than I would ideally have wished. The manner of its presentation by the UCW will not help us in other current public sector pay negotiations. But from my talks with Mr Dearing and reports of the negotiations I know that he has negotiated toughly, without strong support from his colleagues on the Board, and it has only been because of our opposition that further concessions were not given by the Post Office Board. I welcome that the agreement does not make any concession on hours; this is important both in view of the prior expectations of the UCW and as a precedent. Nor does the agreement, however presented, set a new or higher level for pay settlement and is lower than some. And the prospect of widespread disruption of postal services has now receded.

6 I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

Yours Sincerely,

A. Norman Tebbit

pp NORMAN TEBBIT

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

10 DOWNING STREET

From the Private Secretary

Prime Minister (2)

Post Office Pay

Although it appeared during the course of the afternoon that negotiations had foundered, they were later resumed. It now looks possible that a settlement can be achieved at just under 5 per cent with no concession on hours. This could be finalised in the morning.

AT

5/6

NMPM
AT
6/6
CCNO

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

4 June 1984

Dear Kenneth,

POST OFFICE PAY AND INDUSTRIAL RELATIONS

Thank you for sending me a copy of your letter of 31 May to Nigel Lawson.

So far as election addresses are concerned, candidates can only claim free postage on material which is sent through the Post Office. I understand that the parties are already in touch with the Post Office and no doubt they will have to make arrangements for party workers to deliver the addresses by hand.

On poll cards, officials have already, with the agreement of the Post Office and the Treasury, advised returning officers that they may be .... reimbursed by delivering poll cards by alternative means. A copy of the circular is enclosed. The circular also urges returning officers to issue postal ballot papers as quickly as they possibly can. Postal ballot papers can be returned by hand and if necessary I will arrange for a press release to this effect at a later stage.

A copy of this letter goes to the recipients of yours.

Yours ever,

Leon

The Rt Hon Kenneth Baker, M.P.

Annex A

50 QUEEN ANNE'S GATE
LONDON, SW1H 9AT

The Acting Returning Officer
European Parliament Elections in England and Wales

31 May 1984

Dear Sir

DISRUPTION OF POSTAL SERVICES

It is possible that postal services may be disrupted during the next few weeks and that not all election material may be delivered by polling day for the European elections on Thursday, 14 June.

Poll Cards

2. The Treasury will exceptionally be prepared to meet the reasonable, actual and necessary costs of delivering poll cards by other means if local Head Postmasters cannot guarantee delivery of poll cards by polling day and the acting returning officer considers it appropriate for other means to be used. Enquiries should be addressed to Mr M Pharo (01-233 5895) of the Treasury Accounts Branch.

Postal Votes

3. The Election Rules require the returning officer to issue postal ballot papers "as soon as practicable". Returning officers should take all possible steps to ensure that postal voters have the maximum opportunity to return their ballot papers by close of poll. Returning officers are reminded that it is now too late to cancel an application for a postal vote and that they may in no circumstances count postal ballot papers if they are received after close of poll.

Yours faithfully

PHILLIPA DREW

Post & Tels April 80

Pay negotiations

CC NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)
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(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

(2)

Prime Minister

A hint of I told you so, although X makes clear that more money would not resolve the dispute.
To await Chancellor's response.

AT 31/5

RT HON KENNETH BAKER MP

Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
HM Treasury
LONDON
SW1

31 May 1984

Dear Nigel.

POST OFFICE PAY AND INDUSTRIAL RELATIONS

Ron Dearing came in to see me this morning to report on the latest situation in his negotiations with the Post Office unions.

Yesterday, the Post Office Board were minded to go for a settlement at 4.9% if this could be achieved. In view, however, of the Prime Minister's view that the Post Office should not exceed 4.5% in their offer, the Post Office negotiators held back from making any offer above a 4.5% overall increase. In any case, it was clear that the unions were still not prepared to make any concessions unless there was some movement on the Post Office side for a reduction in hours and any improved offer on rates would not have been constructive at that time. They asked for arbitration, which the Post Office refused.

There was unofficial industrial action on the evening of 25 May, affecting 7 sorting offices, but the backlog which accrued during this period was cleared over the Whitsun break. On Tuesday night, there was further industrial action in 9 offices, among them the Nine Elms sorting office serving the SW1 area including Parliament. Mr Dearing estimated that there would be a few million items held up as a result of this. Feeling seems to be running high among the unions, and there was a demonstration by postmen actually inside the Post Office headquarters building yesterday.

The Post Office expect further action next week following meetings of the union's executive committees set for Tuesday which might make the action official. This could take various forms, and is likely to be scattered rather than on a

M48/M48AAJ

CONFIDENTIAL

Post & Tels April 80 Pay

national basis, although Mr Dearing did not exclude the possibility of a one day national strike. More likely, however, will be local overtime bans or lightning strikes or action concentrated on the nerve centres of the Post Office distribution network: the main London and Crewe railway stations and perhaps the control centre for the Central London van fleet.

There will inevitably be a major build-up of undelivered mail and growing difficulties throughout the country and I have arranged for my Department to review the situation daily with Post Office officials, and if necessary, we will have to consider suspending the Post Office monopoly if disruption becomes too widespread. Mr Dearing said that the loss of traffic as a result of any long action would have major effects on the long term efficiency and profitability of the Post Office's operations as there were a number of fixed costs which cannot be reduced easily in line with any diminution in business.

One particular and urgent aspect on which we will have to take decisions is the impact of this action on the distribution of polling cards and election addresses for the European Election on 14 June. The Post Office needs 7 working days to deliver the total of 75 million items involved, which means a last posting date of 5 June for polling cards and election addresses. So far they have only had 10 million polling cards and election addresses given to them for delivery and expect the main surge of traffic to come over the weekend. Ron Dearing has written to the General Secretary of the UCW asking for an assurance by 11 am tomorrow that this mail will be delivered. If this is not forthcoming, I believe we will have to make a statement informing candidates and local returning officers that they may have to make alternative arrangements for the delivery of election addresses and polling cards. The Post Office has already instructed its managers to keep those items already delivered to it separate from the rest of the post so they can be retrieved should there be a decision to make alternative arrangements and I would hope that the disruption involved can be kept to a minimum in this way. Something which we do not have any control over however, is the delivery of postal votes, which cannot be kept separate from other mail. If there is widespread industrial action, we must reckon with a substantial proportion of these not reaching returning officers in time for the poll on 14 June.

This assurance was not given. DTI are now considering what guidance should be given to Returning Officers.

I am copying this to the Prime Minister, members of E(PSP), Secretaries of State for Scotland, Wales and Northern Ireland and Sir Robert Armstrong.

KENNETH BAKER

M48/M48AAK

CONFIDENTIAL

file

E(PSP)

HMT	CDLO
HO	D/Emp
DES	D/Trans
D/Energy	CSO, HMT
DOE	Min Arts Off.
DHSS	
	+ CO

10 DOWNING STREET

From the Private Secretary

30 May 1984

POST OFFICE PAY

The Prime Minister has seen a copy of your Secretary of State's letter of 25 May to the Chancellor of the Exchequer about Post Office pay.

The Prime Minister takes the view that if Mr. Dearing were to offer more than 4.5% then the Government would have acute difficulty with pay negotiations in the rest of the public sector. She has pointed out that different considerations apply in the case of British Rail since a strike in that industry would be a much more serious matter at the present time than a strike in the Post Office.

I am sending copies of this letter to the Private Secretaries to members of E(PSP) and to Richard Hatfield.

David Barclay

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

CONFIDENTIAL

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5422
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(Switchboard) 215 7877

Secretary of State for Trade and Industry

25 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

Dear Nigel.

POST OFFICE PAY

Ron Dearing came in to see Kenneth Baker this afternoon to report progress on pay negotiations with the Union of Communications Workers. There had been no discussions with the Union since April, when negotiations broke down and the Union Executive decided to put the Post Office's 4.2% offer to its conference, with a recommendation for rejection of the offer and industrial action if there was not agreement quickly to their claim of 5.2% and one hour's reduction in working hours.

2 The conference was held last week, and the Executive's proposal was endorsed enthusiastically by their Membership.

3 Negotiations resumed today and the Post Office put forward an improved offer of 4.4% on rates which was rejected out of hand with no movement on the Union side, who feel they have a clear mandate to go for strike action if they do not get what they want.

4 Mr Dearing felt that the Post Office's position had been weakened considerably by the British Rail and Water workers offers last week at around 4.9%. Kenneth stressed the absolute importance which the Government attached to public sector pay in its fight to contain inflation and he urged Mr Dearing to hold the line as long as possible. The Post Office are themselves taking a firm line on this and are certainly not minded to accept any claim approaching that put down by the UCW. They were however sceptical that settlement would be reached below the 4.9% level when negotiations restarted next Wednesday, but felt that settlement even at that level was unlikely because of the position in which the Executive had put itself.

JH1AFF

5 Accordingly, Mr Dearing did not ask for further flexibility, and I think we must be prepared for the possibility of industrial action perhaps shortly after next week.

6 I am copying this to the Prime Minister, other colleagues of E(PSP) and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

The B.R. settlement – although welcome at this rather difficult moment – will not make it any easier for Ron Dearing to settle below 9.9% !
NT

JH1AFF

BST + TCA : Pay in the P.O. April 80

CONFIDENTIAL

6

fe

bc Mr Owen.

10 DOWNING STREET

From the Private Secretary

10 May 1984

Dear Callum

Post Office Pay and Tariffs

The Prime Minister has seen the exchange of correspondence between the Chancellor and your Secretary of State. She endorses the principle that tariffs should not be adjusted to accommodate pay increases and she is content with the proposal that a 17/13p tariff should be introduced from the beginning of September.

I am copying this letter to David Peretz (HM Treasury) and to the Private Secretaries to other members of E(PSP) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

SLIABU

CONFIDENTIAL

10 DOWNING STREET

Prime Minister (1)

Mr Tebbit and the Chancellor having been arguing about Post Office tariffs. Mr Tebbit wanted 17p/13p from mid August. Chancellor wanted 16p/13p from July, with 17p/13p from late September as a fall back. Mr Tebbit now offers 17p/13p from early September.

Agree this as a reasonable outcome?

AT

9/5

Yes

CC NO

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Secretary of State for Trade and Industry

8 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Nigel,

POST OFFICE PAY AND TARIFFS

You copied to me your minute of today's date suggesting that we press the Post Office either to introduce a 16/13p tariff package as soon as consultations with POUNC can be completed or, if this would inevitably result in a significant breach of the Post Office's profit target and EFL, to go for 17/13p in late September. Your essential point was that tariff policy should not become the residual of the Post Office pay negotiations and consequently that we should ensure that the pay settlement was financed at least in part from economies within the business.

2 I have total sympathy with this point and, throughout our discussions with the Post Office, they have been left in no doubt that they must find significant efficiency gains to set off against the cost of the pay settlement and increases in the other costs of running the business. And they have done just that. A 4½ per cent pay settlement will cost in the region of £90m. A 17/13p tariff from 13 August will generate only an extra £58m. Given negligible additional income from the counters service, the Post Office must find the difference plus the whole of the increase in non-wage costs from efficiency gains. In fact the Post Office will have to deliver a 3 per cent improvement in RUC to meet their targets - and we are asking the privatised BT to do no more.

3 Ron Dearing's view is that a late September increase would inevitably lead to failure of the profit target and EFL. Such a delay will reduce revenue by £12m but, in Ron Dearing's view, there is the further very real risk that the targets will be failed by significantly more because of the lack of co-operation from the workforce in working towards the stretching 3 per cent RUC target. This need not take the form of organised industrial action,

JH1ABD

although this is probable given the present reaction to a 4 per cent offer which is the level implicit in your proposals. But there is likely to be an individual reaction through a feeling that extra effort is not worthwhile and brings no appreciation from management. Ron Dearing has also expressed views about the dangers of Government - with limited knowledge of the business or the workforce - seeking to substitute their judgement for his. While Government has a legitimate role in discussing pay and tariffs, we should take full account of the force of this argument, particularly in relation to the conduct of the pay negotiations. No doubt he will have difficulty in reconciling our policy on holding down Post Office prices to the risk of his EFL with that which we adopted towrds electricity charges last year.

4 The UCW Conference starts on Sunday and the pay debate is scheduled for Wednesday, 16 May. The Post Office want to announce their tariff proposals this week in order to avoid creating an explosive situation at the Conference. An announcement next week will be seen as provocative and will strengthen the position of militants who will seek to mandate the Executive not to settle for anything short of significant movement on pay and hours. It is very much in our interest therefore to reach a decision on this question in the next day.

5 In order to aid that decision, we have sounded out Ron Dearing on the possibility of 17/13p from the beginning of September. This will reduce revenue by £4m. He doesn't like it, but he would live with it for the benefit of an early announcement. I should be grateful therefore for your agreement that we may tell Ron Dearing tomorrow that he may go ahead on the basis of 17/13p from 1 September.

6 I am copying this to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

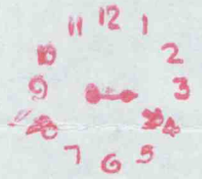
Yours

NORMAN TEBBIT

JH1ABD

Post of Tels April '80

Post Office Law



6.25

CONFIDENTIAL

CC NO.

BF with MT response

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

PRIME MINISTER

POST OFFICE PAY AND TARIFFS

Norman Tebbit copied to me his minute of 18 April which discusses recent developments in this year's Post Office pay negotiations and proposes an increase in Post Office tariffs from August.

2. I welcome the efforts Ron Dearing has made to persuade the UCW to settle at reasonable levels. On merits, a settlement of 3-3½ per cent would be fair in view of last year's generous settlement in the Post Office and the further widening it caused between the pay of Post Office workers and their Civil Service counterparts. I am therefore disappointed that it now looks as if a settlement cannot be reached below 4½ per cent without industrial action.

3. However, I think we could accept a pay settlement in the Post Office this year at, or very close, to 4½ per cent, provided it were linked - and was presented as being linked - to genuine cooperation from employees in efficiency improvements and provided it could be financed without any breach of the Post Office's EFL or profit targets. An agreement at this level and in this form would need careful handling in relation to BT's pay negotiations but should not have major damaging repercussions on negotiations elsewhere in the public sector.

4. Norman also proposed in his minute that Post Office tariffs should be increased from the present 16p/12½p to 17p/13p from 13 August. I have some serious reservations about this suggestion. It would generate sufficient extra revenue to finance a 4½ per cent pay increase in full and I cannot accept that tariff policy should be used to accommodate pay increases of this order. That would undermine the financial discipline we are able to exercise over costs and the incentive for Post Office management to negotiate hard and effectively on pay.

5. For these reasons, Peter Rees has been arguing that the proposed tariff increase should be smaller and earlier to limit the amount of extra revenue available to finance large pay settlements. Peter originally proposed a 16p/13p tariff package from 9 July which would have financed a pay settlement of only 3-3½ per cent.

6. I accept that the customary 3 months' consultation period with POUNC means that we have to rule out a July increase. But I should like to press Norman to agree to the implementation of the 16p/13p package as soon after July as the process of consultation allows. An increase timed in this way would not be sufficient to finance a 4½ per cent settlement in full but if the Post Office are unable to settle at more acceptable levels, I think we should put them under some pressure to find the additional costs from efficiency and other savings within the business.

7. There are important principles at issue here and I am most reluctant to see tariff policy become simply the residual of the Post Office's pay negotiations. I therefore hope Norman will agree to the 16p/13p package I have outlined so we can move quickly to an agreement with Ron Dearing.

8. However, if Norman is convinced that a 16p/13p tariff package implemented as I have suggested would inevitably result in a significant breach of the Post Office's EFL and profit targets, an alternative would be to implement the 17p/13p increase he is advocating but postpone it until late September so that it does not accommodate a 4½ per cent settlement in full. I would regard this as very much a second-best option. But if this is the only basis on which we can be assured of reaching agreement with Ron Dearing while retaining some degree of financial discipline, I would reluctantly be prepared to consider it.

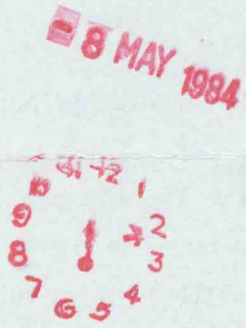
9. Copies of this minute go to Norman Tebbit, the other members of E(PSP) and to Sir Robert Armstrong.

NL.

(N.L.)

8 May 1984

Post + Tel
pay in the Post Office
April 82



Prime Minister ②

To note.

AT 26/4

CC

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(Switchboard) 215 7877

JU214
Secretary of State for Trade and Industry

26 April 1984

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1

MH

D Nigel,

I have just heard from Ron Dearing about the results of the eighth negotiating meeting on Post Office pay.

2 The Post office made an open offer of 4 percent with certain conditions relating to productivity arrangements. This was rejected by the unions and their executive is meeting today to consider a recommendation by the secretary that a motion should be put to the annual conference seeking authority to institute industrial action.

3 The annual conference is in mid-May and the debate on the pay motion is likely to be Wednesday, 16 May. The unions are likely to make an announcement about their executive's decision tomorrow. Mr Dearing is not proposing to take further action pending an announcement by the Trade Union side, however he is seriously concerned that the intermittent industrial action may start soon after any announcement about the executive's position.

4 I am copying this letter to the Prime Minister and other colleagues in E(PSP) Committee.

Yours ever
Norman

NORMAN TEBBIT

Prime Minister ©

To note. Negotiations with now proceed slowly

AT 19/4

CC/NO

CONFIDENTIAL

PRIME MINISTER

POST OFFICE PAY

Following our discussion about the Post Office's negotiations with the UCW, I had a further word with Ron Dearing to say that I hoped that he would succeed in settling as near as possible to 4½% and that he would make no concession on the working week. Mr Dearing assured me that he intended to try very hard indeed to settle as close to 4½% as could be achieved; and that he intended to make no concession on working hours.

2 Informal discussions were resumed on Friday between Ken Young, the Board Member for Pay and Industrial relations and Alan Tuffin. Mr Young probed for a reaction to a proposal for a limited amount of consolidation of the mails bonus in return for more widespread implementation as part of an overall package costed at around 4.2%. His clear view was that a settlement was not possible at this level but that

JH3ADH

there was scope for moving the UCW below their sticking point of an offer of 5.2% before serious negotiations could begin. His impression was that a settlement of less than 5% would be possible but 4½% would be very difficult.

3 The informal discussions were therefore inconclusive and it was not possible to put together a settlement on which the UCW could ballot their membership before the deadline for ratification by the Annual Conference scheduled for week commencing 13 May. The next move is with the UCW. When they ask for negotiations to be resumed, the Post Office intend to negotiate hard knowing that the pressure for a speedy settlement is now removed. But they will want to be close to agreement by the time of the UCW Conference.

4 The formal position remains that the Post Office offer of 3½% conditional upon more flexible working practices has been rejected by the UCW; and that the Post Office will try very hard indeed to settle as near to 4½% as possible and will make no immediate or forward commitment on the working week.

JH3ADH

5 It will not be easy for the Post Office to achieve a settlement at this level without industrial action - especially now that the ultimate decision lies with the activists at Conference rather than a ballot of all members. But a settlement at about this level looks possible. If so, it would not be out of line with other recent settlements and, importantly, will not give comfort to the NUM. In my view, therefore, we should not be sanguine about the effects of industrial action by postal workers and I do not regard a settlement at around 4½% as unacceptable at this time.

6 Kenneth Baker will be writing separately to Peter Rees on the question of the impact of the settlement on postal tariffs. All I would say is that I too would have preferred a smaller tariff increase earlier in the year. But we should be clear that this would certainly lead to the Post Office failing it's profit target and exceeding the EFL, given the loss of revenue implied and the level of pay award necessary for settlement. The alternative would be to insist on a pay award of about 3-3½% consistent with the smaller tariff increase. But that would , in my view, certainly lead to industrial action. The impact of that on the Post Office

JH3ADH

revenue and tariffs would exceed the hoped-for advantage. I believe, therefore, that we should agree to a 17p/13p tariff from 13 August on a 4½% pay assumption. And I note that we should seek, if possible, to announce the proposed new tariffs by 13 May, to give adequate notice and in advance of the UCW Conference on that date.

7 I am copying this to members of E(PSP) and to Sir Robert Armstrong.

NT

N T

18 April 1984

Department of Trade & Industry

JH3ADH

19 APR 1984

Post office

pay

APM 80

CONFIDENTIAL

NOTE FOR THE RECORD

Post Office Pay Negotiations

The Secretary of State for Trade and Industry spoke to the Prime Minister on the phone yesterday evening about Post Office pay negotiations. So far, the management had formally not gone beyond its offer of 3½ per cent but in the process of informal soundings had established that a settlement might be achieved in the range 4.5-4.8 per cent. A difficulty was that the union side wanted to add to this a reduction of 1 per cent in the working week. While it might be possible to agree that this would only take effect from next year, it would nevertheless represent a delayed increase of 2½ per cent.

Mr. Tebbit said there were advantages in settling reasonably soon. First, the Post Office unions have unilateral access to mediation which the Government would wish to avoid. Secondly, if a settlement were reached soon, it could be put to a ballot. If there were no settlement, the pay offer would come before the National Conference which would be less sympathetic than a ballot of the membership. The Prime Minister thought that a settlement of around 4½ per cent would be acceptable, but that 4.8 per cent plus a cut of 1 hour per week, even if delayed for a year, would be too high a settlement. She urged Mr. Tebbit to speak to Mr. Dearing to "stiffen him up". Mr. Tebbit undertook to do this.

After the call had ended, the Prime Minister noted that the more settlements that were achieved below 5.2 per cent, the more generous the offer to the miners would look.

Postscript

Department of Trade and Industry Private Office rang to say that negotiations during the day had proved inconclusive. Although the

management had indicated it might increase its offer to over 4 per cent, the unions stuck at their 5.2 per cent claim. The question of hours was not raised.

There is now no question of hurrying a settlement to be put to a ballot before the Conference. Management will now be taking the slow train in negotiations.

AT

13 April, 1984.

CONFIDENTIAL

NBPM CAT 26/3

DEPARTMENT OF TRADE AND INDUSTRY
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SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

23 March 1984

Dear Nigel

POST OFFICE PAY

Ron Dearing came to see me earlier this week to discuss his tactics for handling this year's pay round. The postal business (excluding Girobank) has a main settlement date of 1 April and claims have now been submitted by the three main unions - the UCW representing 156,000 postmen and counter clerks; the Communications Managers Association (CMA) representing around 15,000 supervisors and middle and senior grades of white collar staff; and the POEU, with a 1 July settlement date, representing 8,000 engineers.

The UCW and CMA claims seek "substantial" but unquantified increases in basic pay and allowances. The POEU are seeking 8%. In addition all three unions are claiming at least one day's extra holiday and improvements to other conditions of service including maximum pay for postmen at 18 (currently 19) and consolidation of part of the engineers' productivity bonus. All unions are seeking a reduction in the working week - 3 hours in the case of the UCW (currently 39½ net); 1-3 hours, depending on grade for the CMA (currently 36-38); and unquantified further progress to a 35 hour week for the POEU (currently 37½). The UCW and CMA claims probably amount to 15-20%; the POEU probably slightly lower at around 12%.

The first negotiating meeting is scheduled for 30 March with the UCW. The Post Office may make an opening offer then but will probably delay doing so until the next scheduled meeting on 3 April. Ron Dearing told me that he would then expect to open at between 3 and 4% with the likelihood that the offer will be either 3¼% or 3½%.

On the question of the eventual settlement, his view - and that of Ken Young, the Board Member for Personnel and Industrial Relations, who was also at the meeting - was that the Post Office would do well to achieve a settlement at around last year's level of 5½%. I made it clear that such a settlement would be wholly inconsistent

with the Government's objectives on public sector pay and that we would expect both the initial offer and the final settlement to be a good deal lower. I asked Mr Dearing to ensure an opening offer which would not lead to a settlement of more than 4%, and to stand firm on hours. The Post Office do feel very vulnerable on hours and think that they will be pressed very hard on this. They will also face arguments on low pay and internal relativities and on the fact that pay awards in the Post Office had been lower than outside comparators in recent years. I stressed that, while the negotiations could well prove difficult, it remained the case that recruitment and retention of staff was not a problem and that the effects of the labour market should be allowed to operate.

Last year's UCW settlement was concluded only after a ballot of members which voted 80,000 to 50,000 for acceptance. Since then the Post Office has experienced a growing number of local disputes resulting in industrial action as efficiency measures, involving the elimination of night working, for example, and other measures designed to cut out overtime, have been pushed through resulting in reduced earnings. You may recall that no mail was collected or delivered in London W12 for the six weeks up to Christmas as a result of just such a measure. This, and the personal position of Alan Tuffin, who has yet effectively to make a name for himself, leads to the conclusion that there is a very real risk of industrial action in the Post Office this year.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

KENNETH BAKER

J16ABG

CONFIDENTIAL

Prime Minister

WR 5/8

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

4 August 1983

Kenneth Baker Esq MP
Minister of State
Department of Trade and Industry

Dear Kenneth

NATIONAL GIROBANK - PAY

I was grateful for your letter of 29 July about the prospect of industrial action in National Girobank. I understand that the CPSA mass meeting, which you mentioned, achieved only a 25 per cent turn-out but rejected the 5 per cent pay offer and voted to continue selective overtime bans.

Ron Dearing was quite right to make it clear that there is no scope for a higher offer, and to insist on tightening up the productivity scheme. Girobank earnings increases in recent years have been excessive by any standard.

On present evidence, the rest of the financial system would operate virtually as normal even if Girobank were to shut down altogether, which is perhaps unlikely. The banking unions will not, I think, take sympathetic action. Though there will of course be some incovenience for Girobank users if its operations are significantly restricted - and my officials have alerted DHSS about that - I am sure that we must encourage Dearing to remain firm.

Copies of this letter go to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

Yours

NIGEL LAWSON

CONFIDENTIAL

POST AND TELECOMS : Pay : April 80

JUL
- 5 AUG 1988

Prime Minister (2) CC AD

MES 29/7

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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SWITCHBOARD 01-212 7676 6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER MP

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Gt George Street
London

29 July 1983

Dear Nigel,

NATIONAL GIROBANK - PAY

I am writing to let you know of possible difficulties in the National Girobank pay negotiations which could surface publicly over the weekend. The Civil and Public Service Association, representing around 4,500 of Girobank's 5000 employees, has called a mass meeting at a Liverpool Stadium for Sunday afternoon at which the membership will be invited to endorse the Executive Council's decision to reject the pay offer and to consider industrial action.

Girobank have offered 5% on basic rates together with a continuation of the existing productivity scheme which gives potential for an increase in average earnings of rather more than 5%. However, whereas the productivity scheme currently provides for the workforce share of the savings to be fully consolidated into basic rates, Girobank are aiming to tighten up this provision by offering consolidation of only half the bonus payments and then only up to a maximum of 1½ of salaries. In addition, Girobank are insisting on some grade restructuring, an increase of 100 part-time staff and the programme of regionalisation.

Ron Dearing, the Post Office Chairman, has issued a personal letter to all staff setting out the benefits of the offer and the importance to the future of Girobank of a sensible settlement. The letter also makes it clear that there is no scope for an improvement in the offer.

A ban on overtime in the cheque encoding area has already been introduced and this will lead to a backlog of a million cheques awaiting clearance by this weekend. An escalation of the

MA5/MA5ABK

overtime ban into more serious industrial action is a very real possibility. This would have significant consequences for National Girobank very quickly.

I am copying to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

KENNETH BAKER

29 JUL 1985

M12/M12AES

Post Office Pay 1983

CONFIDENTIAL

VCC NO

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

20 April 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

Prime Minister 2

MLS 21/4

Dear Patrick

POST OFFICE PAY

I have seen your minute to the Prime Minister of 31 March, and Kenneth Baker's of 13 April.

The offer which the UCW Executive are recommending to their members will, apparently, add about 6 per cent to earnings in a full year. This may be better than feared when I circulated the last monitoring report (28 March). But it is still more than the likely rate of inflation over the year to April, more than the average level of pay settlements in the present pay round, and certainly more than the major public service pay settlements. It will, for example, widen further the extraordinary gap between Post Office and Civil Service salaries for equivalent grades which we noticed in our E(NI) discussion of nationalised industry pay at the end of last year.

This outcome is particularly disappointing given that we had resolved to press for a low pay settlement in the Post Office (and in British Telecom) this year. There can be little doubt that we would have objected to the offer if the Post Office had told us of it in advance, as they should have done. Kenneth Baker had already expressed disapproval of an earlier (and lower) proposed offer.

The Post Office have evidently made this offer with no assurance that it will be accepted. Kenneth Baker's letter of 13 April says that the prospects for a settlement following a ballot on the offer are no better than 50/50. We surely need a clear statement from the Chairman as soon as possible of what he intends to do if the offer is rejected when the ballot result is known in a couple of weeks' time. Proposals to increase the offer will need to be resisted.

I am copying this letter to the Prime Minister, other members of E Committee, George Younger, Sir Robert Armstrong, and John Sparrow.

GEOFFREY HOWE

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

JU750

19 May 1983 (2)

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

Prime Minister

The former ½-¾% is still being offered unconditionally - i.e. not on the basis that they will settle at this level.

MCS 19/5

Dear Geoffrey,

BT PAY

Since Kenneth Baker wrote to you on 25 April there have been a number of developments on BT pay which I should report to you and colleagues (although I understand our Departments have been in touch at official level).

2 BT's current offer stands as 4½% on basic rates from 1 July 1983, together with (depending on productivity) a further 1% from 1 January 1984 and ½% unconsolidated bonus as from 1 April 1984. This amounts to a 4.9% increase per employee pay-year-on-pay-year but it will be nearer 6% with other items like grade restructuring included. The unions have so far rejected this, and Sir George Jefferson told Kenneth Baker on 16 May that he believed BT would need to offer a further ½-¾% to avoid the unions proceeding with arbitration. Kenneth explored fully with him the dangers of the latter course and expressed our concern at the overall size of such an offer. I have since written to Sir George Jefferson asking him to keep any such increase to the absolute minimum. I have also pointed out that I would regard any settlement at this sort of level as quite unjustifiable for BT's UCW, CPSA and SCPS employees.

3 I am copying this to Members of E Committee, John Sparrow and Sir Robert Armstrong.

Yours ever

Patrick

Poste Tels : 80 ; Post pay
Pr Office

19 MAI 1983

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

CC/NO

JF3488

12 May 1983

CONFIDENTIAL

Prime Minister (2)

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

MS 13/5

Dear Geoffrey,

POST OFFICE AND NATIONAL GIROBANK PAY

I advised you on 9 May of the result of the UCW ballot which led to acceptance of the Post Office's offer, worth about 5½% in this pay year. I have now heard the lastest position in the Post Office's negotiations with the POEU who represent some 8,000 staff in the Post Office and 160 in National Girobank. The negotiations in respect of the latter group parallel those with the CPSA and therefore relate to the Girobank settlement as a whole about which you wrote on 27 April and Norman Tebbit wrote on 28 April.

2 Negotiations with the POEU on pay for their Post Office members resume on Friday and the Post Office are confidently hoping to secure agreement to a basic settlement of 5¼%. Negotiations on Girobank pay resume on 19 May and the Post Office believe that they can get a settlement at 5% which would include some grade restructuring to the benefit of Girobank. The offers would not be made unless it were clear that they would secure acceptance - and would, of course, be conditional upon acceptance. Thus, there are genuine prospects for a settlement in both cases at levels below that reached with the UCW.

3 These figures exclude the effect of the confirmation of existing productivity schemes in respect of Girobank, POEU and UCW grades. All of these schemes involve changes in working practices, are subject to continuous monitoring and are self-financing. Indeed they are an essential means of securing the increased efficiency of the Post Office and Girobank operations which remains our central objective. These schemes will remain unaltered except in the case of Girobank where the Post Office

CONFIDENTIAL

expect to be able to settle on the basis of consolidating only half of the bonus payments and then subject to a maximum of 1½% on earnings. Under the existing arrangements, all payments are consolidated.

4 I am copying this letter to the recipients of yours.

Yours ever

Patrick

Post & Telecoms
Pay Negotiations
in Post Office
April 1980

POST Office pay

/CCNO

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

JF3438

9 May 1983

CONFIDENTIAL

Prime Minister 2

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

Mrs 9/5

Dear Geoffrey,

POST OFFICE PAY

Thank you for your letter of 20 April.

2 I am sorry if it was not clear from earlier correspondence that the Post Office offer to the UCW was conditional upon its acceptance and that rejection would lead to the offer being withdrawn. This was always understood to be the case and Mr Dearing earlier confirmed that, if the UCW membership were to reject the "settlement" offer the formal position would be a return to the earlier 4½% offer. Mr Dearing also accepted that he should consult us before making any further offers. However he considered that by then it would have been virtually certain that the union would wish to go to arbitration.

3 If that situation had been reached, I would have pressed him very hard indeed to reach a settlement within the current offer, notwithstanding that arbitration could have led to a higher settlement, given that many postmen would be seen as low-paid. However I have now heard from Ron Dearing that the UCW has voted by a majority in the proportions of 8 to 5 to accept the offer.

4 I am copying this letter to the recipients of yours.

Yours ever

Patrick

SP CONFIDENTIAL

Post & Tels

2

Prime Minister

MS 29/4

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 .....

Switchboard 01-213 3000

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

28 April 1983

MS

D Pat

with mcs ?

Thank you for sending me a copy of your letter of 22 April to Geoffrey Howe.

I am of course in full agreement that there is no need for the Giro Bank to exceed the level of the settlement for the main Post Office grades. But, what is on offer is of course worth around 6¼% in a full year rather than the first year increase of 5½% to which you refer. Either way what is proposed seems excessive. The civil service in line with other white collar employees in the public services looks like settling below 5%. And there is a good prospect of a settlement at 5% in the English Clearing Banks which would be in line with other recent settlements in the private financial sector. Settlements in the banking/financial sector have come down markedly this year and are no longer above settlement levels in the economy generally. That is a development which is very welcome and there seems to be no good reason why Giro Bank should move out of line.

I am copying this letter to recipients of yours.

Yours Norman

CONFIDENTIAL

CONFIDENTIAL

CC No. 2

Prime Minister

Very unsatisfactory.

MLS 29/4

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

27 April 1983

Dear Secretary of State,

NATIONAL GIROBANK: PAY

Thank you for your letter of 22 April about the forthcoming Girobank pay negotiations.

The aim of a 6 per cent settlement is certainly not a very challenging one, even if we can assume that it will not be exceeded. And a settlement in line with the latest offer to Post Office staff would not be much better. As I said in my letter of 20 April, that offer looks as if it will also add 6 per cent to earnings in a full year. Moreover, it falls short of a final settlement because, although recommended by the unions, it is still subject to a ballot.

The Chairman of the Post Office may feel that a relatively high settlement is justified by the intention to finance part of it by increased productivity. I believe that last year's Girobank settlement was for 6 per cent plus 3 per cent for productivity. I also understand that this 3 per cent represented only about half of the anticipated productivity savings, so that total savings of about 6 per cent were implied. Do we know whether such savings actually took place? In what sense did they reflect any additional effort by the workforce? Is any such workforce contribution being monitored?

Even if increases in labour productivity are clearly taking place, I am not sure that this would automatically justify additional increases in pay. Our approach to pay determination has been to stress the importance of market forces. An increase in productivity does not necessarily mean an increase in the level of pay required to recruit and retain staff.

In this connection, I understand that (as at British Telecom and the Post Office) Girobank staff already have very competitive salaries, which are well above those of their Civil Service counterparts. Yet, as Kenneth Baker has pointed out, the aim is a settlement well above that for

/the Civil Service

the Civil Service (meantime, even the clearing banks seem resolved not to go beyond 5 per cent).

I am dismayed by the way in which all three components of the former Post Office remain apparently insensitive to their role as pace-makers in many parts of the labour market. I believe that this is a problem which calls for very hard-headed consideration. Things cannot go on as they are. Meanwhile, I hope that you will be able to impress these points on the Girobank management. They need to think in terms of a markedly lower settlement than they seem to have had in mind.

I am copying this letter to the Prime Minister, members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

Margaret O'Mara

GEOFFREY HOWE

[approved by the Chancellor and signed in his absence]

Post & Tel
Pay

TPR

£ NO

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676 6401

Prime Minister 2

This is awful – to have offered 5½% in the hope of a settlement – i.e. without any assurance that it will clinch the matter.

MLS 25/4

Kenneth Baker MP

Rt Hon Sir Geoffrey Howe MP
Chancellor of the
Exchequer
HM Treasury
Parliament St

CONFIDENTIAL

25 April 1983

Dear Geoffrey,

BT PAY

I understand that your officials have already reported to you the offer made by BT to the POEU and the Society of Telecommunications executives on 21 April of between 4.5% and 5%, which has been rejected by the unions. I now understand from my officials that BT plan today to make a further offer of 5½% in the hope of a settlement.

Following up a letter which Patrick Jenkin sent to Sir George Jefferson warning him of the need for a settlement below 5% on average, and in Patrick's absence in Luxembourg, I rang Sir George to express the very grave concern I felt at this new offer, which exceeded considerably the 4.87% we had discussed at a meeting we had held on 20 April.

I urged him to delay making an offer of anything above 5% until he had a chance to discuss it further with Patrick. Sir George said that he would have great difficulty in doing so. If the negotiating meeting to be held this afternoon were cancelled, there would be great danger of the unions deciding to go to arbitration, which had in past experience resulted in a worse pay finding for BT than might have been reached in negotiation.

At my insistence Sir George undertook to consider carefully with the BT negotiator what I said but could not promise to be able to follow it in the negotiations with the unions.

I am copying this to members of E Committee, John Sparrow and Sir Robert Armstrong.

Yours ever,
Kenneth

M89/M89ABQ

KENNETH BAKER

CONFIDENTIAL

VEC NO.

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

20 April 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

Prime Minister 2

MLS 21/4

Dear Patrick

POST OFFICE PAY

I have seen your minute to the Prime Minister of 31 March, and Kenneth Baker's of 13 April.

The offer which the UCW Executive are recommending to their members will, apparently, add about 6 per cent to earnings in a full year. This may be better than feared when I circulated the last monitoring report (28 March). But it is still more than the likely rate of inflation over the year to April, more than the average level of pay settlements in the present pay round, and certainly more than the major public service pay settlements. It will, for example, widen further the extraordinary gap between Post Office and Civil Service salaries for equivalent grades which we noticed in our E(NI) discussion of nationalised industry pay at the end of last year.

This outcome is particularly disappointing given that we had resolved to press for a low pay settlement in the Post Office (and in British Telecom) this year. There can be little doubt that we would have objected to the offer if the Post Office had told us of it in advance, as they should have done. Kenneth Baker had already expressed disapproval of an earlier (and lower) proposed offer.

The Post Office have evidently made this offer with no assurance that it will be accepted. Kenneth Baker's letter of 13 April says that the prospects for a settlement following a ballot on the offer are no better than 50/50. We surely need a clear statement from the Chairman as soon as possible of what he intends to do if the offer is rejected when the ballot result is known in a couple of weeks' time. Proposals to increase the offer will need to be resisted.

I am copying this letter to the Prime Minister, other members of E Committee, George Younger, Sir Robert Armstrong, and John Sparrow.

GEOFFREY HOWE

PoA + Tel. ✓ ENC

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

6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

CONFIDENTIAL

2

Prime Minister

MS

MES 14/4

Michael Scholar
10 Downing St
London SW1

14 April 1983

Dear Michael,

POST OFFICE PAY

Further to my Minister's minute to the Prime Minister of 13 April, I can now report that the Union of Communication Workers' Executive Committee this morning decided to put the Post Office's offer to a ballot of its membership with a recommendation to accept.

The level of the offer is likely to become public knowledge from tomorrow afternoon, and the result of the ballot, which, as is normal UCW practice, will be an open ballot at Branch level, should be known within about 3 weeks.

I am copying this to Private Secretaries of recipients of Mr Baker's minute of 13 April.

Yours sincerely
Neil McMillan

N M McMILLAN
Private Secretary

M87/M87ABU

D 80

CC NO

2

Prime Minister

Better than earlier predicted is but much too high.

MCS 13/4

CONFIDENTIAL

PRIME MINISTER

POST OFFICE PAY

I had a further meeting with Ron Dearing this afternoon when he explained the basis of the proposed settlement which he has agreed with the principal officers of the UCW.

They are prepared to recommend an offer of 5% on basic pay with effect from 1 April 1983 plus a further 1% from 1 August 1983, with one day's additional holiday in the winter. If the proposals are accepted by the full Executive, they would be put to a ballot, but with prospects for a settlement of no better than 50/50.

The pay settlement would have a paybill and average earnings effect of about 5½%. Because of existing leave arrangements

M87ABO

CONFIDENTIAL

the extra day's holiday in the winter period represents no more than 1/4%.

You will recall that the original UCW claim was for a cost of living increase, reductions in internal differentials, 2 days extra holiday and 3 hours off the working week. This claim was worth something in excess of 20%. In his minute of 18 March, Patrick Jenkin indicated that Ron Dearing expected to have to settle on the basis of probably 5% on pay, a one-hour reduction in the working week and perhaps two extra days holiday. This would have added around 8½% to the paybill. The current proposals which do not concede any reduction in the working week therefore represent a significant improvement over earlier forecasts if acceptance can be obtained. Negotiations are still at a very sensitive stage, and I would be grateful if this information is treated accordingly.

I am copying this minute to members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

K.J.

13 April 1983

VC

5 April 1983

Post Office - Pay Negotiations

The Prime Minister has noted the contents of your Secretary of State's minute of 31 March.

AJC

Jonathan Spencer, Esq.,
Department of Industry.

JH 429

CONFIDENTIAL

Prime Minister

PRIME MINISTER

POST OFFICE - PAY NEGOTIATIONS

I am writing to let you know of further developments in these negotiations since I wrote to you on 18 March.

2 You will recall that the UCW put forward an initial claim related to RPI with additional benefits from a shorter working week and extra holidays. As Geoffrey Howe rightly implies, in his Monitoring Report of 28 March, this claim would lead to an unacceptably high settlement. With this in mind Kenneth Baker pressed the Chairman to make an opening offer below 4% but his advice was not followed for the reasons outlined in my earlier minute. An offer at 4% without fringe benefits was put to the union last week, but formally rejected by them on Tuesday 29 March.

3 The next round of discussion is due to take place on Wednesday 6 April. We were advised today that the Post Office propose to raise their bid to 4½% but with offsetting productivity improvements at that meeting. Kenneth Baker has expressed strong disapproval of such a move, in advance of any movement by the union. He has again impressed on the Chairman the importance of achieving a low settlement. Mr Dearing fully understands the objectives of a low settlement and is himself anxious to settle at the lowest possible figure. He is,

however, still concerned that his offer should avert what he sees as a real threat of confrontation and avoid having the matter referred to arbitration with a subsequently higher settlement than any of us would like. Although it is not obliged to accept the tribunal's findings it will, of course, be difficult for the Post Office to ignore them.

4 After the holiday, once negotiations get under way again, developments are likely to be rapid and meetings will probably take place on an almost daily basis. I will, nevertheless, do all I can to keep colleagues informed as early as possible as the situation develops.

5 I am copying this letter to members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

PJ

P J

31 March 1983

Department of Industry

CONFIDENTIAL

JH 309

Prime Minister 2

MLS 23/3

PRIME MINISTER

BT: PAY NEGOTIATIONS

Your Private Secretary's letter of 10 March asked me to tell you the present position on BT pay. (I minuted on 18 March about the PO.)

2 The pay review date for BT is 1 July.

3 I made it clear to Sir George Jefferson in writing as long ago as last December that we expected a very low settlement this time round and I had a discussion with him on the topic on 10 March. Sir George Jefferson explained then that he shared our view that a very low settlement was needed but expressed the opinion that an offer relatively close to where BT were prepared to settle was better than offering a very low figure to start off with. He said that he was intending to secure a settlement at a figure of less than 5% and was thinking in terms of an opening offer of 4.4%.

4 I put it to Sir George that, in view of the fact that for many BT grades their pay is much higher than that outside the corporation, a settlement at the figure of 5% was too high. I also suggested that the starting figure should be less than 4.4%. Sir George conceded that pay in some BT grades was higher than in comparable employment outside but maintained that there were others where it was lower. He undertook to consider my

suggestion of a lower starting offer.

5 I have now been told that BT have made a formal offer to the two main unions concerned of an average of 4.25%. I understand that taking account of all flow throughs from past commitments and BT's planned staff reductions this offer would involve an increase in BT's paybill in the coming BT pay year (July 1983 - June 1984) over the current one of just under 3.5% (and an increase in the coming financial year 1983/84 of 4.6% over 1982/83. The "pay year" figure is lower because the present offer is significantly lower than last year's settlement, which has a continuing effect in the 1983/84 financial year.)

6 I am sending copies of this letter to members of E Committee, to Sir Robert Armstrong and to John Sparrow.

PJ

P J

22 March 1983

Department of Industry

POST & TELECOM
Pay Negotiations
April '80

CONFIDENTIAL

Post & Telecoms JK

File cc: Mr. Ower

10 DOWNING STREET

From the Private Secretary

21 March 1983

Dear Jonathan,

POST OFFICE: PAY NEGOTIATIONS

The Prime Minister has seen your Secretary of State's minute of 18 March about the Post Office's pay negotiations.

She has commented that she does not find the position reassuring; and that the Post Office can afford to be generous because their prices are too high.

I am sending a copy of this letter to the Private Secretaries to members of E committee, the Secretary of State for Scotland, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

DSG

Prime Minister 2 cc NO

T3006

CONFIDENTIAL

I do not find this reassuring.

PRIME MINISTER

MCS 18/3

POST OFFICE : PAY NEGOTIATIONS

The pay review date for the Post Office other than Girobank is 1 April. The major union involved, the UCW, has now put forward its claim, so far unquantified, seeking an increase in basic rates with the change in RPI, plus the restoration of certain differentials, a 3-hour reduction in the working week and 2 days extra holiday.

2 Kenneth Baker saw Ron Dearing on 16 March to discuss this claim. The Post Office's opening offer was put to the union yesterday, for a 4% increase in pay, together with a hint that a 1-hour reduction in working hours might be available but no additional holiday. It is intended that the reduction in working hour would not be introduced until January 1984, and only on the basis that its cost could be offset in part by productivity measures. Mr Dearing went on to say that he would expect to have to make some concessions on this opening bid, but would be aiming for a settlement not higher than 5% on pay with a 1-hour reduction in working hours and perhaps 2 extra days holiday.

3 Kenneth let Mr Dearing know of his view, which I share, that this opening bid was too high, and would not achieve an acceptable settlement. He referred to the recent level of

settlement by the local authority manual workers and the proposed level of settlement to the Civil Service. Mr Dearing said that the Post Office was in a difficult negotiating position. The business was clearly profitable and the last three settlements had been modest and below the rate of inflation. The postmen had fallen behind in fringe benefits such as holidays and hours of work. If the opening bid were to be unrealistically low he felt that it would provoke a hostile reaction at the outset with the ultimate settlement less likely to be at an acceptable level.

Mr Dearing also pointed out the danger that prolonged negotiation would result in the unions seeking arbitration. The Post Office is obliged to agree to arbitration, though since the discussion in E Committee last year on rights of access to arbitration, the Post Office, under pressure from Kenneth Baker and myself, have improved matters to the extent that the Post Office is no longer bound by the findings of the arbitration tribunal. Nonetheless, the Post Office would prefer to avoid being involved in arbitration of the claim, since on past experience the findings of the tribunal are difficult to predict, and rejection by the Post Office of an adverse finding would not be an easy option for them to take.

4 The Chairman was asked to consider carefully the views expressed to him on 16 March. He promised to do so. A further meeting will be held in about a week's time when the negotiations are under way in earnest. I will report further at that time.

CONFIDENTIAL

5 I am copying this letter to members of E Committee, George Younger, Sir Robert Armstrong and John Sparrow.

PJ

P J

18 March 1983

Department of Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

Port Stell Plz

Eastern St L.O.

11 MAR 1987

cc HO
SO
DOI
D/TRNS
D/N
D/EMP
DOT
DOE
CPRS

bcc Vereker

CO
NIO

10 DOWNING STREET

From the Private Secretary

10 March 1983

Monitoring Report: Public Trading Sector

The Prime Minister was grateful for the Chancellor's minute of 8 March.

On British Rail, she has commented that she hopes that BR will not allow themselves to be pushed any further into proposing higher rewards for driver-only operation on the Bedford-St. Pancras line. The Prime Minister has further commented that BR are, after all, in a strong position with last year's 6% still unpaid.

On the Post Office and British Telecom, the Prime Minister would be grateful to know what discussions the Secretary of State for Industry has had with Mr. Dearing and Sir George Jefferson on pay, what the pay assumptions for these industries are, and what action he proposes to take.

I am sending copies of this letter to Tony Rawsthorne (Home Office), Muir Russell (Scottish Office), Jonathan Spencer (Department of Industry), Richard Bird (Department of Transport), Julian West (Department of Energy), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade), David Edmonds (Department of the Environment), Gerry Spence (Mr. Sparrow's Office) and Richard Hatfield (Cabinet Office).

MICHAEL SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL

Post + Telecoms (2)

MR. SCHOLAR

Prime Minister

To see

MTS 21/5

cc: Mr. Mount
Mr. Ingham

BT PAY

In view of the Prime Minister's interest in BT's handling of their pay negotiations, she may wish to know that George Jefferson told me yesterday that they had concluded a settlement with their unions amounting to a $6\frac{3}{4}$ per cent increase in basic pay over 12 months - despite all their arguments (to us) in favour of a 9 month's settlement, they eventually went for 12.

Jefferson attempted to convert the $6\frac{3}{4}$ per cent into a 6 per cent increase in average earnings because of anticipated productivity improvements; but the Department of Industry tell me that because of the other bits and pieces in the package (some of them outlined in Jefferson's letter to Patrick Jenkin, which I think the Prime Minister saw) and the hang-over from last year's pay settlement, the increase is likely to be considerably higher. Until we have seen the small print it will be difficult to make a judgement on the outcome, but from what I have heard so far, it seems better than we had expected.

John Vereker
21 May 1982

British Telecom

from the Chairman
Sir George Jefferson CBE

British Telecommunications
2-12 Gresham Street
LONDON
EC2V 7AG

Telephone
National 01-357 3773
International +44 1 357 3773
Telex 883051
Prestel Page 383

IN STRICTEST CONFIDENCE

11th May 1982

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Prime Minister (4)

We are having an analysis done of these figures.

MLS 12/5

Dear Patrick

PAY 1982-83

Since our discussion on 6th May, there appears to be continued lively interest in - and, I believe, some misconceptions about - the current pay negotiations with our unions. I thought it would be helpful if I were to set out the arguments and calculations, in amplification of Mike Bett's letter of 6th May to your office.

Attached are two appendices. The first sets out the reasons why we think a nine-month settlement has much to commend it in present circumstances. The second sets out the bracket within which we are bargaining, with the financial implications.

I should like to emphasise that a settlement on one or other of the bases we are seeking would be within the target which I discussed with you earlier in the year, and would be fully consistent with our financial forecasts. In particular, let me stress that there is no question of increases of the kind we are now talking about leading to substantial tariff increases. Our current plans for our next annual tariff round envisage increases averaging around 4.3%, together with, we hope, some novel features to benefit those who have difficulty affording a telephone. This will, we believe, be a significant contribution to the Government's counter-inflation policy.

The reality of my task is to reach a settlement with our unions at a time when our business, unlike many others, is still growing and is profitable. For example, should the POEU's Annual Conference reject our offer, and vote for industrial action, such action would in practice be likely to start a few days after we formally announce

/profits

profits of just under £500m, combined with a net reduction in NLF borrowing. We need profits of that level, and you know that I have made clear to our unions that such profits are necessary for our investment programme (over 80% self-financing) and that we need to continue to get our prices down in real terms.

However, it is unrealistic to expect, in a growth industry such as ours, that the unions will accept a pay settlement significantly less than what is seen to be the going rate. In that regard, the latest CBI figures, covering both the public and private sectors, suggest that the average level of pay increases is settling between 7 and 7½%, with average earnings having risen by some 10¾% in the twelve months to February 1982.

I have given the most careful consideration to the arguments which you have put to me. In all the circumstances, I feel that a settlement not exceeding 7% in average gross pay would be helpful both to the Government's aim of bringing down the average level of pay settlements and its policy towards the restructuring of British Telecom into an organisation better tailored for competition.

It is in British Telecom's interest, just as much as those of the Government, to bring down pay rates. A settlement on the lines which I have set out would continue our policy, which we began last year, of reducing our basic pay rates in real terms, leaving scope for real productivity incentives. I believe that if we can reach a settlement within the bracket set out in the appendices - or within its twelve-month equivalent - then it would be foolish and irresponsible of me not to authorise it.

We have now had a dozen hard negotiating sessions. These are continuing, but in the next day or so we will reach a situation where, if there is no agreement with the Executive Committee of the POEU, a settlement will not be reached before that union's annual conference.

The possibility of arbitration has been mentioned. Arbitration would be a hazardous affair. Our present talks embrace only two of our six main unions; arbitration with one could lead to arbitration with some other unions, and industrial action with others, with unpredictable and varying consequences. As we intend to re-negotiate away from unilateral reference to arbitration, a unilateral submission by us would be totally inconsistent. If we fail to settle with POEU and they do not choose to go to arbitration beforehand, then an open question would go to conference and could precipitate a higher claim backed by a timetable of industrial action against the background which I have described of other settlements and offers in the range 6% to 9% (many of them around 7 to 7.5%) and our profit figures.

/I have

IN STRICTEST CONFIDENCE

The Rt Hon Patrick Jenkin MP

I have therefore instructed my negotiators to seek to achieve the lowest settlement practical, providing it does not exceed the framework set out in Appendix 2 or its twelve-month equivalent. Such a settlement would, I believe, be a good one and entirely defensible against the background of the other negotiations in which the Government is currently engaged or has an interest.

I am copying this letter to the Chief Secretary, the Prime Minister's Office and the Cabinet Office, in view of the interest which Ministers have shown.

Yours sincerely

George

APPENDIX 1

The concept of a nine month settlement for this year is seen as particularly advantageous in the context of decelerating inflation and for the following specific reasons:

1 BT would enter 1983-84 with lower basic rates of pay, closer to those of its competitors, than would otherwise have been expected;

2 BT would have at least a chance of maintaining lower basic rates in future;

3 Negotiations would take place at the same time as a number of other major industries and utilities and BT should avoid being excessively influenced by precedents;

4 BT hopes to persuade the POEU away from its practice of requiring acceptance of pay offers at its annual conference in June;

5 It might lead instead towards a ballot among members which could have a moderating influence; and

6 It would be highly desirable to simplify budgetary planning by bringing the pay year into line with the financial year whilst we are engaged in the major exercise of breaking the Corporation down into profit and cost centres.

APPENDIX 2 - Illustrative calculations of the Bracket 5% to 5.3% for a nine month settlement

Taking each of these elements in turn we obtain the following picture, based on a basic rate settlement of 5% (5.3%) from 1 July 1982 the costs in 1982-83 would be:

- A 5% (5.3%) settlement on basic rates and associated allowances when adjusted for normal NI and pension payments and the incremental cost of a measured productivity bonus (if earned) at a continuing 2% amounts to	+£90m	(+£96m)
- On productivity, in recognition of the cumulative nature of the improvements, we would trade off 1% of the bonus for 1% on basic rates from 1 January; this results in a net saving over the assumed bonus rate of	-£13m	(-£13m)
- In return for the switch to a 1 April settlement date we shall have to pay a lump sum for which we have allowed	+£30m	(+£32m)
- The total amounts to 4.2% (4.6%) of the starting Pay Bill of £2523m in 1982-83	+£107m	(+£115m)
In addition there are other changes: pension deficiency adjustments, volume changes, NI surcharge reduction and band changes amounting to a net	+£3m	(+£3m)
Bringing the total 1982-83 Pay Bill to	£2633m	(£2641m)

In terms of an index of average gross pay for individuals in the last nine months of 1982-83 the effect of these changes can be seen as follows:

30 June 1982 Pay 100.0

being 98% basic + 2% productivity

	"5%"	equivalents at "5.3%"
1 July 1982 base for basic pay settlement	98.0	98.0
+5% settlement on basic rates	4.9	5.2
+1¼% lump sum which taken over the 9 months but annualised into a 12 month rate is	1.7	1.7
+1% on basic rates at 1 January 1983 as a consolidated productivity pay increase paid for three months in 1982-83	0.3	0.3
+1% productivity bonus	1.0	1.0
Leading to an overall	105.9	106.2

The basic rate at 31 March 1983, which would be the foundation for 1983-84 negotiations would be 103.9 (104.2) compared with 98 at 30 June 1982.

These figures are illustrative and do not represent a change from the intention to settle as far below our 7% assumption as proves practicable.

N Scholar DA

I am unimportant. See my notes on George Jefferson's letter (answer attached)

Mr Vereker

SECRET

I have passed this on (too late) to Jonathan Spencer. The Industry Secretary saw Sir G J on Sunday for 2 hours: no further BT offer was made. DoI tell BT Pay me your 7.9/11% figures are wrong. MLS 11/5

Prime Minister

Agree the line at X?

Yes

MLS 7/5

Pottree

(please see it, attached)

MR. SCHOLAR

Mr. Jenkin, in his letter today to the Chancellor, describes Sir George Jefferson's latest proposed pay offer to BT as being in the range 6.13%-6.48%. It isn't. The elements of the proposal add up to 7.9% over nine months, plus continuation of some of the productivity bonus - it is worth nearly 11% on an annualised basis. It is a great fallacy to suppose that it is worthwhile settling at lower apparent figures for short periods, simply because at the end of those periods you have to negotiate a further increase.

In light of that, I am in no doubt that Mr. Jenkin's inclination, to try to persuade Sir George Jefferson not to make this offer, is absolutely right:

(i) there must be a very good chance that the outcome of arbitration, assuming that is what happens next, will be less than 11%; and

(ii) anyway, the Government cannot possibly condone a public sector pay offer in double figures. Even if a double figure settlement is unavoidable, which I doubt, we must be dragged there kicking and screaming.

In view of the access to binding arbitration, industrial action in BT over this pay claim is very unlikely. But the Prime Minister may wish to know that the preliminary conclusion of MISC 59, which has been looking at withstanding industrial action, is that the POEU is capable of sustaining selective industrial action over a period of several months, that this would lead to a progressive deterioration in the telecommunications system, and that measures to cope with such action are not likely to be particularly effective, although we have no experience against which to judge the effectiveness of management responses to selective action in BT.

7 May, 1982

J. M. M. VEREKER

SECRET

In terms of an index of average gross pay for individuals in the last nine months of 1982-83 the effect of these changes can be seen as follows:

30 June 1982 Pay 100.0

being 98% basic + 2% productivity

	"5%"	equivalents at "5.3%"
1 July 1982 base for basic pay settlement	98.0	98.0
+5% settlement on basic rates	~~4.9~~	~~5.2~~
annualised into a 12 month rate =	6.53	6.9
+1¼% lump sum which taken over the 9 months but annualised into a 12 month rate is	1.7 ✓	1.7 ✓
+1% on basic rates at 1 January 1983 as a consolidated productivity pay increase paid for three months in 1982-83	~~0.3~~	~~0.3~~
annualised into a 12 month rate	1.0	1.0
+1% productivity bonus	1.0 ✓	1.0 ✓
Leading to an overall	~~105.9~~	106.2
	108.2	108.6
% increase over 98 =	10.4%	10.8 %

cc. S.V.

JU261

CONFIDENTIAL

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

7 May 1982

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Chancellor

BT PAY

I wrote to you on 29 April about developments in the BT pay negotiations, following my meeting with Sir George Jefferson on 27 April. Sir George called on me again yesterday (at his request) to bring me up-to-date on the latest developments.

2 Sir George explained that the negotiations would come to a head next week. By the end of the week they would either have reached a deal with the BT unions which the union executives would be prepared to recommend to their annual conferences in July; or it would be clear that the unions would not be putting a recommended deal to the conferences. Sir George and his Personnel Director then went on to outline the main elements in the maximum package they would be prepared to offer, and which they hoped would clinch the negotiations. The main elements of the proposed deal are as follows:-

i the settlement to run for 9 months only, which BT claim will enable them to settle at a lower percentage increase on basic rates this year and thereby give them a lower entry point into next year's negotiation; and which also has tactical negotiating advantages for BT in the future since it should in time enable BT to conclude the pay negotiations without reference by the unions to their annual conferences. It would also be administratively tidier, since it would align BT's pay settlement date with the start of their financial year.

ii An increase in basic rates within lower and upper limits of 5% and 5.3%;

iii consolidation from 1 January 1983 of 1% of an existing productivity bonus (which BT claim will have no net impact on their annual pay bill);

iv continuation of the remainder of the existing productivity bonus not covered by (iii) above, at negligible cost in terms of new money;

v a once-off lump sum payment to "compensate" the workforce for their acceptance of the lower basic rate settlement arising from a 9 months deal, for which BT would allocate a total of some £29 million, which works out an average of about £120 per man. The unions could present this as equivalent to about 1.6% on basic rates, though BT would have no intention of treating this as anything other than a once-off exercise.

BT estimate that this package would represent a 6.13% increase on their annual pay bill if the basic rate increase were held to 5%; a 5.3% basic rate settlement would give a 6.48% pay bill increase. The unions would probably wish to present an offer along these lines as worth between 7½ and 8%. (The grade restructuring exercise I mentioned in my previous letter is quite separate from all this, though I understand that no early settlement is now likely on this).

3 As regards tactics, BT would put forward the package informally and without prejudice in the first instance. If the Union Executives were prepared to accept it and recommend it to their annual conferences, it would probably become public knowledge in late May or early June, and would probably be accepted by the conferences. If the Union Executives were not prepared to accept the offer, then BT would make a formal offer at a rather lower level, in the knowledge that the union conferences would almost certainly reject it, and send the executives back to negotiate for a substantially higher settlement (which might or might not be specified quantitively). The upshot could either be a reference by the unions to arbitration (BT's arrangements, which they are trying to dismantle, are that either party may refer a pay dispute to arbitration, the results of which are binding on both sides), though at present the unions are divided on the desirability of this course of action; or preparations could be made for industrial action, though this would probably not begin before August.

4 In responding to this statement, I repeated the Government's concern over the high level of settlement proposed as I had done previously on 7 April, drawing particular attention to the state of play in the NHS negotiations, and to the fact that by any standards BT employees are already very well paid.

5 It seems to me that we now face two alternative courses of action. Either we can let events take their course, and allow BT to table the proposal described above. Alternatively we could

attempt to persuade BT to stick firmly on their present offer (formally 4.3%, though they are pretty heavily committed to the 4.83% offer I described in my letter fo 29 April), while recognising that in BT's judgement this would almost certainly result in a breakdown of negotiations in the course of next week.

In assessing these alternatives, the second course offers the highly desirable possibility of achieving a lower final settlement. Against that, there is an obvious risk that the unions would take the matter to arbitration and thereby achieve a higher settlement than could have been achieved by negotiation (I believe this to be Sir George Jefferson's view). There would of course be no question of BT submitting the matter to arbritration because of the blow this would strike to our policy of trying to end unilateral abritration arrangements. Even for the Union to do so would make it much more difficult to end the arrangements. The alternative risk is, of course, that the union would opt for industrial action of some kind; I understand that MISC 69 will shortly be submitting a report for Ministers on the extent to which this could pose serious problems.

6 My own inclination is to try to persuade Sir George Jefferson and his negotiators to take the tougher line in their negotiations with the unions next week, and not to table the offer described in paragraph 2 above, notwithstanding his view that this course of action could ultimately lead to a significantly higher settlement in the end. Since BT's next meeting with their unions is on Monday morning, I shall have to speak to Sir George on Monday morning if we are to influence BT tactics, and I should therefore be grateful for any views you or the other recipients of this letter may have as soon as possible.

7 I am sending copies of this letter to the Prime Minister, other members of E(PSP), David Howell, Arthur Cockfield and Sir Robert Armstrong.

Yours sincerely

Richard Ryder

PATRICK JENKIN

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

Post Telecoms.
CC 5/4

Prime Minister (2)

4.83% for BT pay, not 12% as the Chancellor feared

MRS 30/4

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

29 April 1982

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall
SW1

MS

Dear Chancellor

Thank you for your letters of 20 and 21 April expressing concern at the way the BT pay negotiations appeared to be proceeding.

2 I held a meeting with Sir George Jefferson on 27 April to emphasize the importance the Government as a whole attaches to BT maintaining a tight grip on pay. Given the high tariff increases over the last two years and comparative rates of pay for engineers in private industry (lower than those of equivalent POEU members) I stressed that there was no case for anything more than a modest increase.

3 Sir George Jefferson explained the precise position in BT's negotiations. The current offer is 4.83% on basic rates, with a range of 3.2% to 5% for different segments of the work force - a radical departure from the traditional practice of universality. BT are determined to hold the line as far as possible; they recognize that firmness is in their own interest because of BT's bad image with the customer and the potential impact of the competition introduced under the BT Act. Sir George has already made clear to the Unions that an enterprise of the size of BT needs to use its profits for future investment; for the better than forecast outturn to be eaten up in higher than justified wages now would mean less for investment.

4 For my part, I made it clear that the Government would want to see a settlement substantially below the 7% assumed in the MTP, that we should want to see BT go as little above 5% as possible, and that we should be horrified by anything over 6%. Sir George recognised these imperatives, and said that BT would seek to drive as hard a bargain as possible. Sir George also referred to a long standing commitment BT have on grade restructuring. BT wish to conclude their negotiations on this issue, which they regard as a key element to more flexible operations in the future, this year. There would be a pay bill cost of around 1½%, but within 2 or 3 years the scheme should be self-financing

through lower manning and more efficient working. These negotiations are separate from the main pay negotiations, and any increases would be implemented from a different date. But the unions might pray them in aid at national conferences in order to carry acceptance for a relatively low settlement in basic rates.

5 I am sure that our best way forward is to maintain pressure on BT both by reinforcing our drive to increase competition and by rigorous scrutiny of BT plans in the MTP discussions. We shall certainly want to cut down on any financial slack that may exist. But to do so now would have no direct or certain effect on the pay negotiations; it would be seen as premature and could be presented as unjustified Government interference. This would be counterproductive in a delicate situation where the Chairman and Michael Bett, the Board Member conducting the negotiations, are themselves bearing down directly on the Unions on a continuous basis in the direction we want.

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

Yours sincerely

Richard Ryder

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

Post + telecons

GCJV

(2)

Prime Minister

MLS 27/4

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

27 April 1982

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

Dear Patrick

POST OFFICE PAY

Thank you for your letter of 20 April.

I entirely endorse your representation to the Board that a settlement of much above 5 per cent would not be acceptable to the Government. I do not see how the offer which is now proposed, and which I understand to be worth 7.7 per cent on earnings, can be held by the Board to be consistent with what you said to them. I hope that you will be able to underline to the Chairman our dissatisfaction with the course they have taken.

I think that we also need to watch the performance-related element which accounts for 0.7 per cent of the proposed offer (and which evidently extends to some commitment to a further bonus in respect of the current year). The Post Office need to ensure that improved performance benefits the consumer as well as the workforce. And insofar as it benefits the workforce, they ought perhaps to think in terms of a more structured link with improved productivity rather than a very general link to performance as with the present proposals.

I am copying this letter to the Prime Minister, members of E(PSP), David Howell and Sir Robert Armstrong.

Yours —

GEOFFREY HOWE

Prot & Tels

JFF529

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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Secretary of State for Industry

23 April 1982

(2)

Prime Minister

7% for Post Office

— not good but could have been much worse.

MTS 23/4

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

Dear Chancellor,

POST OFFICE PAY

In my letter of 20 April I undertook to let you know of further developments in the negotiations between the Post Office and the UCW.

2 I understand that the Board today reached agreement with the Union on the basis of a 7% across-the-board increase in basic rates (which will mean a similar increase in earnings), together with the £55 per man bonus in respect of 1981/82 to reflect the improved results in that year. This settlement does not include any formal commitment to a further bonus for 1982/83, as the Board had originally thought it might need to in order to gain UCW acceptance. The Post Office has, however, undertaken to study the possibility further without commitment.

3 A deal on these lines had been firmly rejected by the Union during informal exploratory discussions before Easter, and in the light of its claim for 20% plus 3 hours off the working week the UCW does not intend to give any publicity to the settlement. The Post Office will, I understand, be presenting it as a straight 7% for the current year, and proposes to issue a low-key press statement this evening, embargoed until tomorrow morning.

4 Such a settlement reflects a measure of firmness by the Board in the face of threats of industrial action to secure substantially more than what has now been agreed. Moreover the Post Office has succeeded in avoiding recourse to arbitration, which would most probably have resulted in a recommendation for a still higher figure.

CONFIDENTIAL

5 It is nevertheless more than any of us would wish to have seen. Although I made the Government's view crystal clear to the Chairman and his negotiators, the scope for effective action on our part has always been limited by the absence of statutory powers over pay. I propose that we take this settlement into account in the course of the coming IFR, and also when the Board consults us over its next proposals for tariff increases (I understand however there is not likely to be a need for higher charges until the Spring of 1983).

6 Copies to go as before to the Prime Minister, members of E(PSP), David Howell and Sir Robert Armstrong.

Yours sincerely,

Robert Cole

PATRICK JENKIN

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

10 DOWNING STREET

(2)

Prime Minister

BT Pay

Patrick Jenkin's private office assure me that 12% is quite wrong. They say that an offer of 4-5% has been made, and that the settlement date is July. They are seeing Jefferson on Tuesday. They will set out the position in their reply to Geoffrey Howe, as soon as possible

MLS 21/4

CONFIDENTIAL

Post + Tel

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

21 April 1982

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

Dear Patrick

BRITISH TELECOMS : PAY

I wrote to you yesterday about the financial position of British Telecoms. I mentioned then my strong concern that funds which we make available for investment should not be directed into high pay settlements or other costs, and suggested measures which would ensure there was no relaxation of financial discipline.

I hope I may be forgiven for returning so soon to this subject; this time more on the procedure for monitoring BT's pay negotiations. The reason is that I have only just discovered from the Department of Employment (who in turn found out from a trade union journal) that BT engineers and technicians (totalling some 150,000 staff) were offered 4.3 per cent on basic rates as long ago as early March. Since then the offer has been increased to 4.8 per cent on basic rates, with a number of other improvements. Although I understand you saw George Jefferson on 3 March and that he told you then that BT would concentrate on 4 - 5 per cent at the opening stage in negotiations, it appears that the Department of Industry was not aware of the precise details of the offers made, and certainly we were not given any notice of them. I understand a further negotiating meeting has been arranged for 23 April, when there must be a real risk that moves will be made towards a disturbingly high settlement. I hope that you will be able to discover beforehand what the management's intentions are, and make representations to the Chairman as necessary. I hope too that you will accept the proposals I have made for asserting a measure of financial discipline, since these are of crucial importance in this context.

I think this story underlines what the Prime Minister said in the context of British shipbuilders in her letter of 1 April about the somewhat haphazard and unsatisfactory flow

/of information

CONFIDENTIAL

of information on pay developments we are getting from certain nationalised industries. The late stage at which we got to know about the intentions of the Post Office provides another case in point. I think it is most important that firm steps should be taken to tighten up the arrangements with these industries for early and full notification of developments in their pay negotiations, and thus facilitate earlier warning for colleagues concerned on the lines which I agreed with your predecessor 18 months ago.

21 APR 1982

GEOFFREY HOWE

JFF475

cc JV.

DEPARTMENT OF INDUSTRY
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SWITCHBOARD 01-212 7676

Secretary of State for Industry

20 April 1982

Prime Minister

7% - Unsatisfactory - but accepted by PO and DoI.

MCS 21/4

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

Dear Geoffrey.

will report if necessary.

You wrote on 13 April, following our talk at NEDC. No formal negotiations have taken place over the last week, but I understand that further exploratory discussions have been held with the UCW, following a meeting I held with Mr Dearing and most of his Board on 6 April.

2 On that occasion Mr Dearing and his colleagues accepted that their settlement could have wider implications for other groups yet to settle in the pay round, but stressed what they saw as the difficulty of keeping the increase down to 5% at a time when the expected profit for 1981/82 indicated that the business could afford more. I said that I realised the difficult problems facing the Board, but made it perfectly clear that a settlement much above 5% would not be acceptable to Government, particularly if it involved a higher percentage still on basic rates. I emphasised again the Government's lead in the offers made to its own employees, and told the Board that it had to bear in in mind that the kind of increase being considered was considerably higher than many of the Post Office's commercial customers were paying.

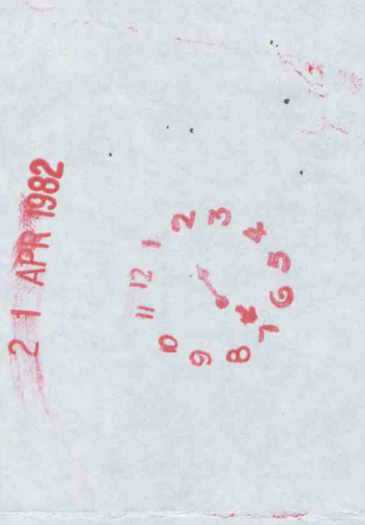
3 In the subsequent exploratory discussions between the Post Office and the UCW, I understand that the Post Office has not (contrary to the suggestion in yesterday's 'Financial Times') increased its formal offer of 5%, but has indicated informallly that it would be prepared to consider offering 7% on basic rates and earnings if (and only if) that would be accepted by the union. The Board has, I understand, also indicated its willingness to consider an arrangement whereby any improvements in the Post Office's real unit cost performance in the current year, over and above the Government's performance aim, would be

shared with the workforce - after the productivity has been delivered. To facilitate a settlement on these lines the Board would also consider paying a bonus of £55 per man in respect of last year, the money for which is already available from the better than expected financial performance for 1981/82.

4 Negotiations are to continue this week and Mr Dearing hopes to conclude them one way or the other in the next few days so that the membership can be balloted. If a quick conclusion were not reached any agreement would have to be ratified by the (militant) Annual Conference to be held next month. It is apparently by no means certain that even the package referred to above will secure a settlement, and the Board is well advanced with contingency planning to minimise the cost should the UCW decide to take selective industrial action. For despite their proposals being uncomfortably high from our point of view I do not believe that the Board is prepared to settle at any price.

5 Meantime I am keeping in close touch with the negotiations and will let you know of any developments.

6 Copies go to the Prime Minister, Members of E(PSP), David Howell and Sir Robert Armstrong.



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p.a.

cc Mr. Hoskyns

MR. SCHOLAR

Post Office pay

I think the position apparently being adopted by the Post Office Board, as reported in Mr. Baker's minute of 1 April, is as good as we can expect. As long as they stick to the position that they will only go up from 5% to 7% if they are sure of a settlement, we can in all the circumstances be satisfied.

John Vereker

2 April 1982

CONFIDENTIAL

Prime Minister

A Loga
Tony Clark
1/4/82

CONFIDENTIAL

PRIME MINISTER

POST OFFICE PAY

In my minute of yesterday I undertook to keep colleagues in touch with the negotiations with the UCW.

Following a meeting at which the Board resolved to take into account the Government's views on the need for a low settlement - paying particular attention to the current offer of 6.4% to the nurses - an informal exchange was held today with the UCW.

I understand that Mr Jackson indicated privately that the lowest that the Union would be prepared to settle for would be 9%. The Post Office negotiator indicated that the Board could not contemplate a settlement at that level. The Post Office undertook to examine whether there might be ways of structuring an offer within the Board's own limit of 7% (which I am firmly assured is its maximum) to benefit the lowest paid. This is not, however, in the Board's view likely to be the answer.

A further meeting is to be held tomorrow, Friday. The UCW have not yet decided whether to seek a full negotiating session - which would mean a break down - or a continuation of the informal meetings. If the latter, the Board has authorised its negotiator to explore whether an offer up to 7% would result in a settlement but there is, I am told, no question of an open offer increasing the existing 5% being made at that meeting.

I will report again on the outcome of tomorrow's meeting.

I am copying this to the Members of E(PSP), Norman Fowler and Sir Robert Armstrong.

K.B.

K.B.
1 April 1982

M36ABQ

10 DOWNING STREET

(2)

Prime Minister

Mr Dearing was appointed in 1981, and his appointment runs until 30 Sept 1986.

Please see now Mr Baker's office's latest letter (attached)

MLS 30/3

010

JV

Prime Minister (2)

MCS 31/3

PRIME MINISTER

I saw Mr Dearing this afternoon. He confirmed that at its meeting with the UCW yesterday, the Post Office had stuck to its 5% offer. In these circumstances the Union was not prepared to negotiate further. It is now public knowledge that the postmen have been offered, and have refused 5%.

I made very clear to Mr Dearing the importance the Government attaches to getting a low settlement for the postmen in the context of public sector pay, drawing extensively on the content of the Secretary of State for Employment's letter of 29 March. I stressed to him that the Board should not increase its offer and pointed out to him that the offer to the Civil Service involved nil rises for about 100,000; moreover there seemed no justification for the offer to the postmen to exceed that of the nurses.

Mr Dearing shares our desire to achieve a low settlement, but his concern is that if the Post Office refuses to increase its 5% offer the Union would seek arbitration. Arbitration is only binding if both sides agree, but in the event of deadlock and subsequent industrial action, there would be very strong pressure for an arbitrated settlement. Mr Dearing feels that, on the strength of previous Post Office arbitration awards, this could well result in an outcome higher than that which the Post Office could achieve by direct negotiation.

Should the Post Office refuse to go further than its present offer or to seek arbitration it is likely that the unions would resort to industrial action, probably selective. This would result in serious delay to the mails and possibly affect counter services. Both could cause cash flow and other problems for a number of public and private sector bodies, but it is too early yet to gauge the precise impact.

I made it clear to Mr Dearing that in the event of industrial action resulting in delay to the mails, we would very seriously consider using our powers to suspend the Post Office monopoly, either by region or nationally, and I believe that private carriers would be able to fill in some parts of the gap. Many business will of course be able to make their own arrangements, but it would be unrealistic to expect there to be anything like a full alternative service.

Mr Dearing is calling a Board meeting for this evening and I have asked him to make clear the very definite views of the Government. He undertook to do so but reserved the Board's position to make up its own mind as to how to proceed. He

M36/M36AAG

did however assure me that the Board would not consider going beyond 5% unless it saw a clear prospect of a settlement within its own ceiling of 7%. At my request, he gave me an assurance that the Post Office could achieve his financial objectives, including the EFL, without excessive tariff increases in the event of a settlement at this level.

The next step in the negotiations is an informal meeting with Mr Jackson tomorrow. Mr Dearing has undertaken to keep us in touch with each stage of the negotiations and I will report to colleagues further as the situation develops.

Copies of this minute go to the members of E(PSP), Secretary of State for Transport and Sir Robert Armstrong.

K.B.

KB
31 March 1982

CONFIDENTIAL

Prime Minister (2) c/c JV BI

Mcs 30/3

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

29 March 1982

Kenneth Baker Esq., MP.
Minister of State
Department of Industry

Dear Minister of State

POST OFFICE PAY

TPM

Thank you for your letter of 24 March. I am grateful to you for drawing Mr Dearing's attention to the importance of opening the Post Office pay negotiations with a low offer.

Like the Prime Minister, I am considerably concerned about the Post Office Board's approach, which, as reported in your letter, seems to me to be much too relaxed. Mr Dearing's assessment seems to be as follows:-

(a) At worst, the unions may insist on 12 per cent.

(b) At best, an increase of 7 per cent on basic rates might be achieved.

(c) At any rate, the Post Office will manage to settle in single figures.

But even the 7 per cent figure would be well in excess of the assumption underlying the 1982-83 EFL, which was that increases should be limited to 4 or 5 per cent except to the extent that more could be financed by genuine productivity improvements. It would not be surprising if 7 per cent on basic rates amounted to more on earnings, a possibility which is strengthened by the use of an 8 per cent assumption in the Agency Services Agreement negotiations.

It seems moreover that the Post Office would be satisfied with an even higher settlement, as long as it was in single figures. Such a settlement could well be higher than anything so far conceded in the public trading sector; the miners settled for 7.4 per cent on earnings and the waterworkers 8.8 per cent. It is not even as if we had serious industrial strength to contend with in the case of the Post Office.

/I understand

CONFIDENTIAL

I understand that 5 per cent on basic rates was offered on 25 March. (Again, the effect on earnings may be higher and it would be helpful if this could be calculated.) I understand, too, that there is to be a further meeting on 30 March. I share the Prime Minister's view that we need to put to the Chairman very seriously the proposition that he should be prepared to hold to the existing offer. The Chairman can hardly object that this would cause negotiations to break down, because he evidently sees that as a real possibility even at the figures which he at present has in mind.

Finally, the Treasury is already resisting the 8 per cent pay assumption in the context of the ASA negotiations. But that assumption is no more than an expression of the Post Office's lax approach, and it is the latter which we need to change.

I am copying this letter to the Prime Minister, other members of E Committee, the Secretary of State for Social Services, and to Mr Ibbs and Sir Robert Armstrong.

Yours sincerely

Peter Jenkins

pp GEOFFREY HOWE

(Approved by the Chancellor of the Exchequer and signed in his absence).

30 MAR 1982

c/c IV
BI

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

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

Clearly we
ETEL in bad light.
MB

M Scholar Esq
Private Secretary
10 Downing Street
London

29 March 1982

CONFIDENTIAL

Dear Michael,

POST OFFICE PAY

Thank you for your letter of ~~26~~ March 1982.

In the light of your letter, officials here have had a further discussion with Mr Dearing about the Post Office position. John Vereker was present at the meeting and he explained the difficulty which an increase in the current offer of 5% would create for the Government.

Mr Dearing said that at the next meeting with the unions on Tuesday, the offer would not be increased beyond 5%. Further meetings with the unions are planned for Thursday and Friday; tactics at these meetings will depend on the outcome on Tuesday. Mr Baker has arranged to see Mr Dearing on Wednesday when he will again make clear the Government's position.

You said in your letter that the Prime Minister had also asked for a list of the ways in which the Department of Industry could bring pressure to bear on the Post Office in this matter. Given that we have no statutory powers on pay, and that Mr Dearing could accommodate a settlement of 7% within his financial objectives, without excessive tariff increases, we believe that the most effective way of bringing pressure is to continue to keep in close touch with the Chairman who is concerned to secure as moderate a settlement as possible. Mr Baker has, however, made clear that should the unions' resort to industrial action to delay the mails in support of the pay claim, the Government would very seriously consider using its powers to suspend the postal monopoly, either in whole or in part.

I am copying this letter to the Private Secretaries to Members of E(PSP) and to David Wright (Cabinet Office).

Yours ever

Nick McMillan

N M McMILLAN
Private Secretary

CONFIDENTIAL

2.

P+T

cc: Mr. Hoskyns

MR. SCHOLAR

Post Office Pay Negotiations

As indicated at the end of my note to you yesterday, I was invited this afternoon to hear Mr. Dearing explain his tactics at a meeting taken by Roy Croft, the Deputy Secretary responsible in the DOI. I made it clear to Mr. Dearing that I was there to be better informed, and not in any sense to second-guess his tactics or to convey the views of Ministers. (Having said which, I felt free to do a certain amount of both). Mr. Dearing spoke at length and informally. The discussion gave a valuable insight into the gap between the way the Government perceives the pay issue, and the way it is regarded by a nationalised industry chairman.

He explained that he considered that the Board's responsibility was to achieve a settlement consistent with their agreed targets for profits, the EFL, and cost reductions. Their judgement was that they could do so within a 7% increase on the wage bill: when pressed he agreed that a reduction in the hours worked meant that the average earnings increase could be slightly more. He confirmed that the Board's intention was to stick to the present 5% offer (on basic rates) on Tuesday, and to move to 7 - 8% later in the week if there was a clear prospect of a settlement. But he judged that it would eventually be necessary to go to 9% in order to avoid industrial action (when pressed, he was unable to substantiate that judgement, although he did point out that there was one particular Board member - Derek Gladwin - an active member of the Labour Party, who made no secret of his belief that they should be given 8% and a 1 hour reduction in the working week). He definitely did not favour risking a strike, because he was sure that the UCW would take selective action, to which the Post Office was particularly vulnerable; and, in the absence of a lay-off provision, which he greatly favoured, the Post Office would be obliged to go on paying large numbers of workers who had nothing to do.

He would not rule out going to arbitration: the agreement with the UCW is that any arbitration is by consent of both parties but binding: he recognises the danger of increasing the offer, and then going to arbitration. The prospect is therefore clear: unless

/ Mr. Baker

CONFIDENTIAL

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Mr. Baker when he sees him early next week (or possibly after Tuesday's meeting) persuades him otherwise, the offer will be increased in the face of threats of industrial action, until it reaches high single figures and a settlement. Roy Croft ventured the thought that a settlement ultimately achieved below 7% would not be disastrous for the pay round, but that anything higher would be viewed with alarm by Ministers. I intervened to stress the particular delicacy of this stage of the pay round, and the potentially repercussive nature of any increase over 5%, both because it would provide ammunition for union leaders in forthcoming negotiations, and because it was bound to be noticed by arbitrators. But Dearing's response was that he would be "ashamed" to have to defend publicly sticking on an offer as low as 5%, given the rate of inflation. He understands the importance the Government attaches to the pay round, but considers that his duty is limited to achieving a pay settlement within the business constraints that he has been set.

I told Roy Croft afterwards that it might be worth bearing in mind that if any increase had to be made, it would be less repercussive if it was in the form of a slight reduction in the hours per week, and if it were substantially delayed - until the end of April. It remains to be seen whether Ministerial pressure will in fact hold the Post Office Board to the lower end of the range of figures that has been mentioned.

26 March 1982

CONFIDENTIAL

CONFIDENTIAL

JR
bc JV
BI
P + Tels

10 DOWNING STREET

From the Private Secretary

26 March 1982

Dear Neil,

POST OFFICE PAY

The Prime Minister has seen the exchange of correspondence between your Minister and the Chief Secretary about the Post Office Board's intentions as to this year's pay offer. The Prime Minister understands that the unions were yesterday offered 5 per cent, which has been rejected; and that the Post Office's intention is to go up towards 7-8 per cent next week, aiming to settle later in single figures.

The Prime Minister is most concerned about what appears to be an acquiescence in a settlement for Post Office workers which may well turn out to be higher than that achieved even in the public utilities. In her view, the Post Office settlement ought to be substantially below this level. She considers that Mr. Baker should call Mr. Dearing in again, and tell him that the Government would view with considerable disquiet any increase in the offer which has already been made, unless clearly paid for by productivity improvements. This is a time of great delicacy for pay settlements elsewhere in the public sector, and there should be no disposition to back down immediately upon receipt of a threat of industrial action.

The Prime Minister has also asked for a list of the ways in which the Department of Industry could bring pressure to bear on the Post Office on this matter. I should be grateful if you would keep me in close touch with developments.

I am copying this letter to the Private Secretaries to members of E(PSP) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Neil McMillan, Esq.,
Department of Industry.

JR

CONFIDENTIAL

Prime Minister (1)

I put the very disquieting note from Mr Baker to you yesterday. This is very unsatisfactory.

Agree I write as at X - also asking for a list of the ways DoT could bring pressure to bear on the Post Office?

MCS 25/3

MR. SCHOLAR

cc Mr. Hoskyns
Mr. Walters

Yes - immediately

Post Office Pay

I understand that the Prime Minister has seen the exchange between the Chief Secretary and Mr. Baker about the Post Office Board's intentions as to this year's pay offer; and you have since told me that Mr. Baker's office have let you know that the unions were yesterday offered 5%, which has been rejected. I have now discussed the position with the Department of Employment and the Department of Industry.

It is clear that the exchanges between the Chief Secretary and Mr. Baker, and between Mr. Baker and Mr. Dearing, have had no effect on the original intentions of the Post Office Board. The offer made to the unions yesterday seems to have been 5% on basic rates; the effect on earnings is not known, but in the Post Office usually adds at least 1%. No concession has (yet) been made on hours, despite the unions claim for a reduction of three hours a week. Mr. Dearing's intention is, I understand, to make no further offer when the negotiations resume next Tuesday, but to go up to the 7-8% range later in the week, aiming to settle in single figures. With wage drift, this means there is a real possibility of a settlement adding double figures to average earnings.

Mr. Dearing appears to be motivated by two considerations: he sees no need to settle much below what the Post Office can afford, and he sees no point in sticking at a level which is likely to lead to industrial action. Industrial action is of course not unknown in the Post Office, but nor is it particularly effective - at least in the short term. And before it can be taken, the UCW would either ballot their members, or consult them at their annual conference in early May (a ballot is of course less likely to result in endorsement of industrial action than a conference resolution).

/The

CONFIDENTIAL

The Department of Industry do not believe that Mr Dearing is particularly susceptible to Ministerial pressure. But I do not think that he has yet been subjected to it. Mr Baker has "stressed the importance" of opening near 4%; but he does not appear to have thrown up his hands in alarm - as he certainly should have done - at the prospect of an 8% settlement. Jonathan Solomon, the Under Secretary responsible, believes that there is some scope for reining them back - particularly those on the Board who take a less robust line than Dearing - if the relationship of Post Office pay to pay elsewhere in the public services is explained; and that there may be some scope for productivity bargaining.

If the Prime Minister agrees, therefore, I think you should reinforce the line the Chief Secretary has already taken, by writing to Mr Baker's office (unless Mr Jenkin is back soon). You could indicate that the Prime Minister is concerned at the way in which both Mr Baker and Mr Dearing seem to be prepared to accept a settlement for Post Office workers which may well turn out to be higher than that achieved even in the public utilities, when on the basis of the criteria regarded by this Government as being important it ought to be substantially lower; and that Mr Baker should summon Mr Dearing again, tell him that the Government would view with considerable disquiet any increase in the offer which has already been made, unless clearly paid for by productivity improvements. You could add that this is a time of great delicacy for settlements elsewhere in the public sector, and that the Government are surprised at Mr Dearing's unwillingness to face down threats of industrial action which might well turn out to be empty.

Mr Dearing is coming to see DOI officials tomorrow afternoon, and I have accepted an invitation to be present (on the clear understanding that I am observing, and not in any sense speaking for the Prime Minister); this should cast considerable light on the Board's tactics, and you may want to consider whether it would be better to wait until after that meeting before you write.

Better to write immediately.

MLS

25 March, 1982

cc F.V.

DEPARTMENT OF INDUSTRY
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6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER MP

Prime Minister (2)

This is very unsatisfactory. I understand that Mr Dearing may defer an offer and that his starting-point is likely to be 4-5%.

Rt Hon Leon Brittan QC MP
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

24 March 1982

CONFIDENTIAL

Industry are far too worried about the threat of industrial action. But there is a problem about how far we can lean on the PO.

MLS 24/3

Dear Leon,

In the absence of Patrick Jenkin who is in the USA, I am replying to your letter of 23 March. TPM

I had been warned about today's proposed offer to the postal workers of 5% on basic rates and I saw Mr Dearing today to discuss the prospects, and to stress to him the importance of making an opening offer at as near to 4% as possible.

Mr Dearing explained that the UCW had opened with a bid of 20% and three hours off the working week, but he thought their sticking point might be about 12%. He said the Board was determined to settle in single figures, at not more than 7% if possibl and he assured me that any settlement which might be reached would be consistent with the Post Office meeting its financial objectives without recourse to excessive price increases.

Mr Dearing went on to say that he considered that there was a real possibility of a breakdown in negotiations and consequent industrial action which could affect both the mails and the Post Office counters. I shall be keeping in close touch with the negotiations and with the Post Office's contingency plans to deal with industrial action. I shall keep you informed of progress.

So far as the assumption of an 8% increase in earnings in the Agency Services Agreement negotiations is concerned, I agree that it appears to be on the high side, but that is surely something which it is for user Departments to press the Post Office on in the course of negotiations.

I am copying this letter to recipients of yours and to the Secretary of State for Health and Social Services.

Yours sincerely,

KENNETH BAKER

M35/M35AAT

CONFIDENTIAL

CWJV

Prime Minister (2)

MES 24/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

23 March 1982

Dear Secretary of State,

POST OFFICE PAY

Although there has been no advance notice under the arrangements which the Chancellor of the Exchequer agreed with Keith Joseph in September 1980, I understand that the Post Office intend to make most of their staff a pay offer on Wednesday 24 March which is worth 6 per cent on earnings. I also understand that the objective is to settle ultimately for around 8 per cent on earnings. That at any rate is the figure which the Post Office are assuming in negotiations with the Treasury on charges under the Agency Services Agreement, and which my officials have challenged.

These figures would appear to be quite inconsistent with the assumption underlying the 1982-83 EFL, which was that increases would be limited to 4 or 5 per cent except to the extent that more could be financed by genuine productivity improvements. I see no reason at all why the Post Office should have to settle in line with the highest settlements in the current pay round. When we discussed nationalised industry pay early in the autumn our view was that a relatively low settlement might be expected.

If the position is as I understand it, we must leave the Post Office in no doubt that we find it unsatisfactory, and ask them to take a firmer line. If they are to be persuaded to reduce their proposed offer, urgent Ministerial intervention from your Department with the Chairman of the Post Office would seem to be needed. There can be nothing unreasonable about asking the Chairman to take seriously the assumptions on pay which you have already discussed with him.

I am copying this letter to the Prime Minister, other members of E Committee, and to Mr Ibbs and Sir Robert Armstrong.

Yours sincerely

LEON BRITTAN
(approved by the Chief Secretary & signed in his absence)

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Post + Telecoms ✓

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Secretary of State for Industry

18 January 1982

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Michael

POST OFFICE: RETIREMENT AND PENSIONS

Thank you for your letter of 14 January. My Secretary of State has asked this office to arrange a meeting with the Chairman of the Post Office as soon as possible and he will report back to the Prime Minister in due course.

Yours ever
Richard

RICHARD RILEY
Private Secretary

FILE PM

10 DOWNING STREET

From the Private Secretary

14 January, 1982

Post Office: Retirement and Pensions

Thank you for your letter of 12 January to Willie Rickett about the report that the Post Office were asking people to stay on after the age of 60 with fully indexed pensions plus full pay.

The Prime Minister has seen your letter, and has commented that the Post Office's position is thoroughly unsatisfactory and unconvincing. She trusts that your Secretary of State will take up the matter immediately. In her view the arrangements described in your letter make no sense in today's conditions.

I am sending a copy of this letter and of your letter to Terry Mathews (Chief Secretary's Office, HM Treasury) and Barnaby Shaw (Department of Employment).

M. C. SCHOLAR

R Riley, Esq
Department of Industry

CONFIDENTIAL

82

JH 132

cc Mr Vereker
Mr Duguid

DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

I think SJS will take it up immediately. It does not make front page today's Evening Standard.

12 Janaury 1982

(2)

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

A thoroughly unsatisfactory and unconvincing position.

MLS 12/1

Dear Willie

POST OFFICE: RETIREMENT AND PENSIONS

I understand that the Prime Minister mentioned to my Secretary of State reports which she had heard that the Post Office were asking people to stay on after the age of 60 with fully indexed pensions plus full pay.

2 My Secretary of State has raised this matter with the Chairman of the Post Office who has provided the attached note.

3 In short there is a long-standing commitment stemming from a decision made by the former Post Office Board in 1970 and incorporated in the Pension Fund Trust Deed, which cannot be altered without the agreement of the union trustees. Under this commitment, which is subject to conditions of health and efficiency for the individual and need for the post, staff who remain in employment after the age of 60 have the option (but are not actively encouraged) either to:

(i) continue making contributions to the pension scheme, accruing higher benefits on retirement, but meanwhile receiving no benefits; or

(ii) cease contributing to the scheme, but draw pension benefits plus pay for age 60.

4 Out of a total workforce of some 180,000, some 12,000 staff are over 60. 10,250 are weekly paid (nearly all Postmen and Postmen Higher Grade) with about 7,700 receiving both pay and pension. The general position is similar to that in British Telcommunications where there are some 13,000 retained pensioners.

5 By way of comparison the Civil Service position is broadly that anyone who remains after 60 at a lower grade may not earn

more that he was previously earning, the pension element being reduced to ensure that this condition is met. Prior to the introduction of the contributory part of the Post Office pension scheme on 1 December 1971 the position in the Post Office was the same and for stafff under the non contributory section of the Post Office pensions scheme, it still is.

6 The Post Office arguments in favour of the practice of paying full pay and full pension after age 60 are:

(a) actually it costs no more to the pension fund to pay a man a lower pension from an earlier starting point than it would to let him accumulate further benefits after age 60;

(b) it is cheaper to the Post Office to keep a man on after 60 (when employment costs are abated by the 18% employer's pension fund contribution) than to train a new recruit. Such men are, moreover, usually more reliable than new entrants;

(c) men retiring at 60, often with a low pension, would suffer hardship (they could also cost the Exchequer money in the form of unemployment or other social security benefits);

(d) if someone with an occupational pension from elsewhere (for example the Armed Services) took a job in the Post Office he would keep that occupational pension in addition to his Post Office pay;

(e) when the scheme was introduced it was difficult to obtain sufficient staff to provide a proper service.

7 There are, therefore, arguments for and against the practice of paying full pensions plus pay for those working after 60. But the situation is on the face of it curious at a time of high unemployment, and my Secretary of State, whilst noting that the new Post Office Board has begun to look at aspects of their inherited retention agreements, intends to discuss the matter with the Chairman on the first appropriate occasion.

Yours ever

Richard

RICHARD RILEY
Private Secretary

The Post Office - pension for staff aged over 60 years

1. The Inheritance on pensions

The present Board inherited commitments on pensions from a decision made by the old Post Office Board in 1970.

Under these, staff in the contributory pension scheme, who remain in employment after the age of 60 have the option either to:

i. continue making contributions to the scheme, thus accruing higher benefits when they retire, but meanwhile receiving no pension benefits.

ii. to cease contributing to the scheme, but drawing their pension benefits plus pay from age 60.

These commitments:

i. are enshrined in the Pension Fund Trust Deed which cannot be altered without the agreement of the union trustees;

ii. according to actuarial advice given to the old Board, cost no more than the pension arrangements inherited by the Post Office from the Civil Service;

iii. facilitated the retention of staff who were much needed for their commitment, reliability and skills, and who were often (and still are) better value for money than the average recruit that would replace them.

2. The inheritance on retirement after 60

Agreements made in the past with our most important unions, including arrangements going back to when the Post Office was part of the Civil Service, commit us to accept the retention of staff after age 60 if the person concerned is fully effective, not blocking opportunities for others in the business and there is no redundancy situation. Moreover, in a redundancy situation male employees are entitled to statutory redundancy compensation even if in the 60-65 age group.

The ability to continue in work after 60 is an issue of great importance to the more junior staff especially at postman level, because the majority reaching 60 have far less than the number of years service required to have a full pension equal to half pay.

3. The main facts

i The average service for postmen at age 59 is about 18 years and the average pension for weekly paid staff is £22.40 a week. (As of now, only 200 out of 90,000 postmen have 40 years service and therefore a full half pension entitlement. For monthly paid staff the average pension is £138 a month.

ii There are 12,000 staff over 60, of whom some 10,250 are weekly paid and the number in receipt of pension and pay is 7,700. This is against a labourforce of some 180,000.

iii Only a tiny percentage of supervisory/management grades are retained after 61.

4 The Commercial Dimension

From the financial point of view the Post Office and the customer is probably better off retaining effective staff over 60, than not, especially at the basic levels. Such staff often have strong commitment and if they remain at work and choose to draw pension, the Pension Fund is no worse off as a result and so far as the Corporation is concerned, in comparison with staff recruited to replace them, the Post Office saves the employer's contribution to pension provision as well as recruitment and training costs.

For the supervising and managerial grades our commercial interest is generally in favour of retirement at 60 or very soon after because the Business needs the dynamic of younger people.

For supervisory and management grades where retention over 60 accounts for only 1½% of our staff in the relevant grades, we have already begun to tighten up.

5. The Social Dimension

With the present level of unemployment, especially among young people, there is a strong social case for the retirement of 60 year olds that have an adequate pension. But 10 out of 12 of our staff over 60, are weekly paid with an average pension well below the poverty level, who cannot afford to retire and who would have very poor alternative job prospects. Even a postman with 40 years service would only have a pension of about £45 a week and the average man with 18 years has only £22 a week.

6. The Position of the Present Board

The obligations we inherited from the past are unambiguous; there will be great resistance to change, and commercially the case for change is doubtful.

Nevertheless, we have begun to look at aspects of the retention agreements and it is not the case that we have a policy of encouraging staff to stay after 60. It is rather that we have inherited agreements from the past which give many staff that option subject to their providing effective service and their posts being needed. There are however occasions when for good reasons the manager of a particular office wishes to retain particular people beyond 60, and that may have given rise to the report.

The issue of pension costs generally is a matter of concern to us since it has been a growing element in our costs over the years. We are therefore closely interested in the work being done on pensions in the public sector and our pension obligations will accordingly be an issue for early review.

Meanwhile we are progressing with widespread changes in the Post Office concentrating our energies on those areas where our case is strongest and the potential benefits highest. In this we have not been deterred by industrial confrontation. It is against this background that we recently gave notice of termination of our current arbitration agreement and have secured an increase in productivity in the crucial Inner London area by 10% over the last 20 months and nationally saved 7m hours on mails operations in the first half of 1981/82. In saving manpower we are concentrating on overtime rather than on numbers employed because it is excessive and at its recent levels, more costly than plain time.

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Post and Telecomms

DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

13 April 1981

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury
London SW1

Dear Peter

POST OFFICE PAY

Ron Dearing, the Chairman Designate of the Post Office, has been in touch with officials here about the state of the Post Office's pay negotiations with the Union of the Communication Workers (U. .

2 The Post Office's latest offer is for a 6% increase from 1 April, to be followed by a further 2% from 1 October. This has been rejected by the UCW.

3 . Mr Dearing has said that Mr Jackson of UCW is privately indicating that he is willing to recommend to his membership that they should accept an offer of 8% from 1 April with a further 1½% from 1 October or a straight 9% with effect from 1 April. Mr Dearing wanted to know my Secretary of State's views.

4 My Secretary of State takes the line that the Post Office's existing offer of 8% is already too much and that the staged element in the offer is undesirable. He has asked officials in the Department here to tell Mr Dearing this and to indicate that, if there is a strike over pay, there would be a "substantial relaxation" of the Postal monopoly.

5 My Secretary of State is conscious of the linkage between the postal and civil service pay negotiations. So far as the Post Office is concerned he would not in the last analysis object to an additional ½% taking the total offer up to 8½%. But he is worried about the prospects of the Post Office being forced to

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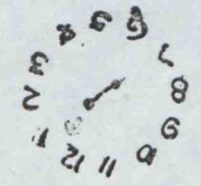
make a really excessive offer by small stages.

6 I am copying this letter to Richard Dykes (Employment) and to Tim Lankester.

Yours ever

Ian

I K C ELLISON
Private Secretary



13 APR 1981

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Ref. A02725

PRIME MINISTER

Post Office Pay, Financing and Prices

(E(80) 79)

BACKGROUND

This paper by the Secretary of State for Industry sets out the options for dealing with the overrun on the External Financing Limit for Post Office Telecommunications in 1980-81.

2. The key figures are, in £ million:-

470 excess	-
- 160 yield from 20 per cent tariff increase on 1 November 1980	
- 100 from further economies	
210	

or 160 if further savings of £50 million are found.

3. A surcharge of £5 per line would raise £90-£100 million; and add 0.2 to the RPI. A surcharge of £8 would be necessary to raise £160 million; and would add 0.3 to the RPI.

4. The alternative, which the Post Office wish to pursue, is a special financing scheme for funding equipment supplies, or for factoring debts. This is unacceptable because, though it would not add to the PSBR, it would add to the money supply: its monetary effect would thus be little different from letting the Post Office overrun their EFL.

5. You agreed at your meeting on Wednesday that there should be no reference on Telecommunications to the Monopolies Commission.

HANDLING

6. After the Secretary of State for Industry has introduced his paper the Chancellor of the Exchequer will wish to comment on the options.

CONFIDENTIAL

7. Broadly there are three:-

(i) To accept the Post Office's proposals for special financing arrangements - but this would add to the money supply.

(ii) To let the EFL be exceeded - and place the full blame on the Post Office.

(iii) To instruct the Post Office to impose the surcharge - and again to put the blame on them and on the 21 per cent pay settlement with the Post Office engineers.

8. If the Committee accepts that a surcharge is necessary, there is a strong case for keeping it to no more than £5 and to insist that the Post Office must find savings to bridge the remaining gap.

9. There will also be a difficult problem of public presentation. The Post Office will claim that a good deal of the excess results from falling demand at a time of economic recession and on assumptions for inflation when the EFL was set which have turned out to be unrealistic. They will also no doubt argue that they were willing to come forward with constructive ideas for private sector financing. As presented by them the surcharge could be seen as the price of the high theology of a rigid Treasury. The Government's task will be to explain, in simple terms, that the financing proposals were no more than a dodge, which would add to the money supply; and that the root of the trouble is the excessive pay claim allowed to the Post Office engineers, and the failure of the Post Office to control their costs generally.

10. If the surcharge is to go ahead, the question might be raised whether it should apply generally or whether, for example, pensioners and other disadvantaged groups might be exempted. This could lead to difficult administrative problems, which are hardly worth incurring for a once-for-all surcharge.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions on:-

(1) Whether there should be a surcharge.

(2) If so, whether it should be limited to £5 with the Post Office instructed to find the rest from other savings.

(3) Whether any groups should be exempted from the surcharge.

(4) Any alternative solutions to the problem.

RCA

(Robert Armstrong)

25th July, 1980

cc Mr Duguid

CONFIDENTIAL

Qa 05087

To: MR LANKESTER

From: J R IBBS

Post Office Pay, Financing and Prices

1. The position revealed in E(80)79 is a bad one on which it is easy to comment but hard to offer constructive suggestions.

2. I understand that the difference between a 15 per cent pay increase and a 20 per cent increase is approximately £75 million per annum and that the full value of the 20 per cent increase is approximately £300 million per annum. The financing gap is stated to be £470 million. Something has therefore gone seriously wrong to the extent of £170 million, even if no pay increase at all had been required. The earlier discussion did not seem to me adequately to explain this so that one could be confident that the causes will not lead to similar difficulties in the future.

3. I am suspicious of the concept of using a surcharge to cover what must be a permanent cost increase. Unless from next April onwards there are to be other revenue savings (none has to my knowledge been specified) which will offset the high settlement, the cost of it will continue and will need to be recovered. I suspect therefore that a further tariff increase for next year may already in effect be built in and that the surcharge is merely a way of trying not to draw attention to the true magnitude of the permanent increase now needed. At the very least the use of a once-off surcharge to meet an ongoing expense invites difficult questions the answers to which need to be established in advance.

4. The paper provides no grounds for supposing that the possibility of further savings from the investment programme of £1½ bn. has been thoroughly examined. As you know, my one concern would be that such savings should not delay modernisation of the system but even so it is hard to believe that out of so large a total there are not some other items which could be deferred.

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

JRI.

25 July 1980

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JU

CONFIDENTIAL

E Ctee
Monday

Prime Minister

The last part of this minute (paras 7 and 8) deals with the Mine strike: Sir Keith is opposed.

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

1 Following our discussions at E Committee on 9 July, I undertook to report developments in the telecommunications pay situation.

2 On 22 July, the Post Office offered the Post Office Engineering Union (POEU) an 18% increase in basic pay plus 3% for (unspecified) productivity improvements. This has been accepted by the POEU National Executive Committee, subject to a ballot of members. This is clearly an unsatisfactory conclusion; there is, moreover, some reason to fear that the ballot may not result in acceptance, so there is the prospect of industrial action in August.

They have now decided to accept without a ballot- TL 24/7

3 The pay settlement means that, on present forecasts, the Telecommunications business faces an EFL gap of ~~£472~~ 520 million in 1980/81. The Post Office Board have approved an overall tariff increase of about 20% on 1 November aimed to bring in £210 million in 1980/81. The Board find it impracticable to bring forward the increase to 1 October. In addition, the Board can find the £100 million savings which I described in my minute of 18 June. Sir William Barlow has explained that the bulk of these savings come from delays in receipts of stores, cutbacks in recruitment, overtime and advertising. Only £40 million of the savings are derived from deferred payments to equipment suppliers. The Board has also reluctantly acquiesced in a £50 million cutback in this year's investment programme. This leaves an external financing gap of ~~£442~~ 160 million.

/4 ...

CONFIDENTIAL

4 I am convinced that we must close this gap. Sir William is fully aware of the need to keep within the EFL and has instructed his management to examine all the options. David Young and Department of Industry officials have been exploring with the Post Office the possibilities of property sales but these may not be practicable in the limited time available.

5 Sir William has written to tell me that, unless the Government allow the Post Office to cover the remaining gap through a scheme for financing equipment work in progress, the Post Office will impose a surcharge on all subscribers. He has suggested that he would need a direction before doing this but there is in fact no power for me to give him such a direction. A surcharge does have attractions if we can convince the public that it is the inevitable consequence of an excessive pay settlement with the POEU. On the other hand, the Post Office management and unions would try to pin the blame on the Government and invoke public displeasure against the whole EFL system. This is a complaint to which we have a full answer.

6 We are faced with a choice between a surcharge or the scheme for financing equipment work in progress. Geoffrey Howe knows that I am opposed to any scheme which would result in an increase in the money supply and I think the scheme will need to be rejected on money supply grounds. This means we must face the prospect of a surcharge. Officials are, however, re-examining the effects of the financing scheme; I hope to have their advice shortly and we can defer a decision until then.

/7 ...

7 Geoffrey Howe and John Nott have suggested that a reference to the Monopolies and Mergers Commission should be announced to coincide with the pay settlement. I am not sure that such an announcement will have any impact following my own announcement about the relaxation of the telecommunications monopoly and the studies for the liberalisation of value added network services and alternative networks. I am also concerned that an additional study would divert management at a time when it has to cope with the problems of reorganisation. Nor am I attracted by Geoffrey's suggestion for an enquiry into restrictive practices; the Post Office's deficiencies arise not only from restrictive practices but also from the inability of line management to respond to clear market needs. In my view we should let the new chairman have a chance to get to grips with these defiencies, bearing in mind that management changes will take time to have effect. I fear that a ban on recruitment at the present time as suggested by Geoffrey would merely worsen the quality of service; in the City, for example, the Post Office is taking on extra labour in an effort to cope with the serious backlog of installations which is impairing business efficiency.

8 My conclusions are that we should leave on one side the idea of an MMC reference and should defer deciding on the proposed surcharge until officials have completed their re-examination

/of ...

of the financing scheme for equipment work in progress and until after I have seen Sir William Barlow which I am doing on Monday 28 July. In the meantime, I would welcome your agreement that, if, as expected, the financing scheme is unacceptable, we should accept the proposal for a specific surcharge.

9 I am copying this minute to Members of E Committee and to Sir Robert Armstrong.

I. Ellison

KEITH JOSEPH

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

23 July 1980

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL

Qa 05073

To: PRIME MINISTER

From: J R IBBS

Telecommunications Pay and Damage to Industrial Prospects

1. When I spoke at the meeting of the Cabinet on 3 July after Terry Burns's presentation I said that unless attitudes were changed there would be damage to the industrial base. The situation on telecommunications revealed at yesterday's meeting of E Committee provides a good practical example of what I had in mind.

2. The sequence of the arguments in this instance is:

(a) it is likely that a high pay award (20 per cent) will have to be conceded to the POEU;

(b) quite rightly with present basic policies the money will not be provided by increased public spending;

(c) this means it has to come from increased efficiency (there is little hint of any significant contribution from this) or higher tariffs or reduced investment;

(d) it was clear from the discussion that part will have to be found in fact from reduced investment;

(e) if the reduced investment means that the telephone system is expanded more slowly, the damage may be only minor. However, if the reduced investment means that completion of modernising the network is delayed, and that System X is introduced more slowly, then this is likely to lead to serious damage because an essential part of the basic framework on which the opportunity to develop a strong information technology industry depends will be missing for a further period. It is already late compared with competitor countries. (Personally I believe the Government should do all it can to prevent the reduction in investment taking this form but there seemed to be a lack of confidence yesterday that the Government had power to achieve this.)

(f) The significance of reduced investment of this kind may never be widely appreciated, certainly not until it is too late. To the public the problem will be almost as effectively hidden by reduced investment as it would have been if increased public spending had paid for the settlement.

3. My basic point therefore is that here is a good example of potential serious damage (not healthy accelerated industrial change) and that unless success is achieved in changing attitudes there will be others.

4. It was suggested yesterday that the POEU had a dominating position and that the planned partial breaking of the Post Office monopoly would not radically alter this. In these circumstances the future attitude of the Union becomes of crucial importance not only for the future of their own telecommunications business but much more widely because information technology is one of the few major potential growth points currently identified at which this country's industry should be able to excel.

5. The practical conclusion I draw from this is, as you have already pointed out, that so far as the cost of the settlement falls on the tariff every possible effort needs to be made to press home the realisation that customers are having to pay for a wage increase that is not being earned by any productivity improvement. I also believe it is worth giving serious thought to developing the theme that those who take high wage settlements are eating the seed corn on which the future of their industry and other industries depends, and that as a nation we have been doing this for years and then complaining about low investment.

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

JK

10 July 1980

E(80) 24th Mtg Item 4

4. TELECOMMUNICATIONS: PAY NEGOTIATIONS AND 1980-81 EXTERNAL FINANCING LIMIT

The Committee had before them a letter of 4 July from the Secretary of State for Industry to the Chancellor of the Exchequer, and a minute of the same date from the Chancellor of the Exchequer to the Prime Minister, about negotiations with the Post Office Engineering Union (POEU) on its 1979-80 pay settlement and the consequences for the External Financing Limit (EFL) of Post Office Telecommunications.

THE SECRETARY OF STATE FOR INDUSTRY said that the Chairman of the Post Office was reasonably confident that the POEU Executive would be willing to accept a settlement of around 20 per cent, rather than the 37 per cent which they had claimed. It would be unrealistic to expect them to agree to anything significantly less. Strike action would be highly damaging both to the public sector borrowing requirement - as last year when telephone billing was disrupted - and to business and the international networks on which the City was dependent. A settlement at this level would add to the overrun on the Telecommunications EFL for 1980-81 and it would be necessary to take action to offset an excess in the order of £470 million. He proposed that this should be done by a 20 per cent tariff increase from 1 October which would yield about £240 million in the year; by deferring investment of £50 million; by deferring payments of £100 million to creditors; and by delaying the pay increase or deferring further investment to find the balance of £80 million. Subject to the views of the Secretary of State for Trade, he considered that the tariff increase should be accompanied by a reference to the Monopolies and Mergers Commission. He also intended to accelerate the introduction of measures to reduce the Telecommunications monopoly.

In discussion the following points were made -

a. It was deplorable that the Post Office should be expected to find a considerable part of their offsetting savings from deferring payments to their creditors, often at the expense of smaller companies who were already in cash flow difficulties and would effectively be called upon to give interest free loans to the Post Office.

b. It would be preferable to find more money by further investment cuts which, even at this late stage in the year, should be practicable on a programme of over £1½ billion, and by deferring the implementation of the pay increases. It was recognised that there were limits to the extent to which the Post Office could cut investment without breaking contracts and being forced to pay compensation costs.

c. The Post Office management should be required to prepare, or allow to be prepared, a comprehensive report on restrictive labour practices in the corporation. Under present arrangements the management of the business appeared to be dominated by the unions.

THE PRIME MINISTER, summing up the discussion, said that the Committee accepted that the Post Office should be left to settle the Post Office Engineers' 1979-80 claim, at about 20 per cent if that were the least that was negotiable. They further reluctantly accepted that to deal with the prospective excess of £470 million on the Telecommunications EFL there should be an increase in Telecommunications' tariffs of 20 per cent from 1 October. The Government should make clear that this increase was directly attributable to the POEU's wage claim and the Post Office's failure to manage their finances within the EFL. The Committee were particularly concerned by the proposal that £100 million of the excess on the EFL should be financed by the deferring of payments to creditors. The Secretary of State for Industry should press the Post Office to replace the savings to be found in this way as far as possible by further investment cuts or a longer deferment of the payment of the pay increases.

The Committee -

1. Approved the proposals of the Secretary of State for Industry for bringing the Post Office's external financing requirement in 1980-81 back within the External Financing Limit, including the proposal for a 20 per cent telephone tariff increase from 1 October 1980.

2. Took note that the Prime Minister would consider further with the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade the possibility of a reference on Telecommunications to the Monopolies Commission.

3. Invited the Secretary of State for Industry, in consultation with the Secretary of State for Employment, to consider seeking a report from the Post Office management on restrictive practices within their telecommunications business.

4. Invited the Secretary of State for Industry to inform the Chairman of the Post Office of the Government's concern over the situation which had arisen, and to urge him to seek an opportunity to make a major speech on the need to stamp out restrictive practices in the Post Office.

Cabinet Office

10 July 1980

Posts & Telecoms

Ref A02580

PRIME MINISTER

E: Telecommunications Pay Negotiations

BACKGROUND

You asked for this to be put on the agenda. There is a long list of correspondence but the discussion can most conveniently be focused on the letter of 4 July from the Secretary of State for Industry to the Chancellor of the Exchequer and the Chancellor's minute of 4 July to you.

2. On the assumption that there is a 20 per cent pay settlement, the Post Office is currently heading for an excess of £472 million over their External Financing Limit. If there were to be a 17½ per cent tariff increase on 1 November, and other savings were to be implemented, the Secretary of State for Industry believes that this excess would be reduced to £112 million as follows -

£ million	
50	from deferring investment
100	from deferring payments to creditors
150	yield from 17½ per cent tariff increase in November
60	delaying pay increase for 10 weeks
360	'savings'
112	EFL gap remaining
472	

202 minute

3. The scope for reducing the remaining gap by higher and/or earlier tariff increases is shown in the table in paragraph 8 of the Secretary of State for Industry's letter. If the increase were to be 20 per cent from 1 October - as the Chancellor appears to be willing to accept, albeit reluctantly - the gap would be down to £22 million ie within the margin of error.

- Pleiku -
- Cheo Reo .
- Ban Me Thuot .

4. A 17½ per cent tariff increase would add 0.2 on to the RPI in due course, and 20 per cent would add 0.24. The full RPI impact would not be felt straight away because of the time lag resulting from billing.

5. The Secretary of State for Industry says that Sir William Barlow believes that he could settle at about 20 per cent on pay. The Secretary of State would be willing to see the Post Office deal with any gap on the EFL by some form of end-year adjustment. The Chancellor is strongly against this on the grounds that it would discredit the EFL system. He therefore believes that in the absence of any other alternative it is necessary to go for a tariff increase in the order of 20 per cent as soon as possible. But he proposes that this should be accompanied by a reference to the Monopolies Commission on perhaps 'installation, repair and maintenance'. In addition he wants the Telecommunications management to commit themselves to preparing a comprehensive report on restrictive labour practices throughout the Corporation.

HANDLING

6. The Secretary of State for Industry will wish to set out the latest position, including his assessment of the consequences of strike action, and his recommendations. The Chancellor of the Exchequer and the Secretary of State for Employment will wish to comment. Mr Tebbit, on behalf of the Secretary of State for Trade will have points on the proposed reference to the Monopolies Commission.

8. In discussion the main questions will be -

i. Can the pay settlement be less than 20 per cent?

The judgement is that it cannot in view of settlements elsewhere in the public sector and of the scope for industrial action which could, as last year, be highly damaging to the PSBR. But deferment of the payment by 10 weeks might be negotiable and would save £60 million in the year.

ii. What should be the level and timing of the tariff increase?

At this stage in the year there are limits to what can be done by way of offsetting action on the EFL excess. As it is the £100 million obtained by deferring payments to creditors is highly unsatisfactory at a time when private sector industry is faced with cash flow difficulties. However, in the absence of any significant savings beyond those proposed by the

Secretary of State, there seems to be a bleak choice between a significant over-spend on the EFL and a tariff increase higher than 17½ per cent and earlier than November. The Committee will wish to decide whether in the circumstances they should accept 20 per cent on tariffs in October.

iii. Should there be a reference to the Monopolies Commission?

If this is agreed, it will be for the Secretaries of State for Trade and for Industry to agree on terms of reference and to clear them with colleagues generally. The Committee will probably wish to endorse the Chancellor's proposal for a parallel review of restrictive labour practices in the Corporation.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions on -

i. The level and timing of the tariff increase.

ii. The other offsetting changes to eliminate the excess on the External Financing Limit.

iii. Whether a reference should be made to the Monopolies Commission.

iv. The Chancellor's proposal for a report on restrictive labour practices in the new Corporation.

D. J. Wright

ROBERT ARMSTRONG

(approved by Sir R. Armstrong and signed on his behalf)

8 July 1980

10 DOWNING STREET

Prime Minister

We had a rush to get this note out. This is just to say that it was copied to all E Members. + Armstrong & Ibbs.

Unfortunately we left this information off the bottom of the Minute.

Apologies.

8.7.80

SECRET

8 July 1980
Policy Unit

PRIME MINISTER

NATIONALISED INDUSTRIES: TELECOMMUNICATIONS PAY NEGOTIATIONS

1. There are, broadly speaking, two categories of nationalised industry:

   (1) Market monopolies, often effectively "owned" by trade union monopolies.

   (2) Non-monopoly industries, usually nationalised because they are lame ducks, or tending towards lame duck status after nationalisation.

   British Telecommunications (BT) is in the first category.

2. The Government is concerned about four things:

   - Pay increases - with their knock-on effects in the rest of the public sector and the private sector.

   - External financing limits - with their impact on public spending and the PSBR.

   - Price increases - with their impact on the RPI.

   - "Raiding" investment - which stores up problems for the future.

3. On present policies, Government has little room for manoeuvre with market monopoly NIs:

   - It cannot freeze BT's prices.

   - It cannot make BT's management resist a pay claim.

   - It cannot intervene to reduce pay increases, directly.

   - It has virtually no real sanctions against management failure.

   - It can insist on enforcing EFLs, though this simply means that BT raises prices and/or raids its investment, though it may also cut manpower.

- It could relax the EFL, in order to let BT give pay increases without commensurate price increases. But this still gives a pay knock-on effect and destroys Government's credibility on cash limits etc.

- It could perhaps persuade BT management to face a strike, provided it (Government) undertakes to restore the EFL status quo ante (but this could be pointless, if selective disruptive action is painless to the POEU).

- It can also do traditional fudging measures - rolling numbers forward into the next financial year, creating less than 50% subsidiaries of BT, factoring debts. But the knock-on effect of the pay increase would still be there.

4. BT's management could possibly slightly reduce price increases by raiding investment. It might also slightly reduce price increases through demanning and higher productivity. But could that be done quickly? Would the unions agree?

5. The Government is effectively in a box - the combined result of its present rules and policies colliding with the exercise of union monopoly power and further aggravated by BT's indefinite no-redundancy pledge (there may be a moral about "arm's length" dealing here). Most of the correspondence about the BT claim is concerned with finding the least uncomfortable position inside this box. The NI Investment and Financing Review 1980 reflects the existence of this box elsewhere. Paragraph 14 of the main paper freely acknowledges that most of the "option cuts" this year are in investment. Throughout this paper there seems to be an assumption that it is investment which will have to take the strain, while wages go on rising (in money terms) and productivity increases very little.

6. The Questions Raised by the BT Situation

6.1 Is there anything Government can do except fudge and hope for the best?

6.2 If we think that trying to make BT resist the claim is worth at least considering, the following questions arise:

(1) The EFL problem is not, of course, just a matter of pay. At what lower level of pay increase would the EFL or price increase problem disappear?

(2) What is the position on selective action? What percentage of the work force could be laid off without pay? Would the fact that they were awarded no increase during the period of selective action have any effect on attitudes at all? Could we use that period of selective action and lay-off for winning a propaganda battle? Could the threat of further anti-monopoly action affect attitudes?

(3) Could the Government effectively force BT management to resist the pay claim by, for example, intervening to limit the tariff price increase to, say, 9%? Would this be the thin end of a confused interventionist wedge? Or could it make sense within a coherent policy on other matters?

(4) How would we prevent a strike turning into an overt contest between the union involved and the Government, rather than with management?

6.3 The BT situation also raises more general questions:

(1) Is an arm's length relationship between Government and a monopoly nationalised industry controlled by a trade union cartel, really practicable, until or unless the market monopoly is effectively broken?

(2) We may conclude that there is nothing to be done about BT and that Barlow must be allowed to award whatever increase he can reasonably negotiate and put up prices accordingly. We could no doubt rationalise it by saying that it is the end of the pay round, that NUR got 20% etc, and that it is difficult to see how POEU could take less (though we obviously would have a different problem on our hands altogether if the dispute hardened around the 25-35% band). But the problem is still there. The box still exists with Gas, Electricity, NCB, British Rail. Of course, pay is a smaller component in the total expenditures of some of those industries. And some are at present controlled by less militant unions. But we must assume that the problem will come round again in the next pay round, and we therefore have to ask ourselves what our policy, the rules of the game, should be for such monopoly nationalised industries, and what contingency plans, both physical and political, are necessary in preparation for the next one in the queue.

Conclusion

Serious failure to curb pay increases in the nationalised industries will make it very difficult to curb the increase in the £32bn public services wage bill. Since large manpower cuts in the public services are difficult, such a failure could well mean failure to meet realistic cash limits (or great pressure to impose "relaxed" cash limits) and thus failure to achieve the MTFS. Even if we can't get out of the BT box this time, we will have to do so with BT and others in the next round. Perhaps it's time to design a better box.

JOHN HOSKYNS

Top copy on
Post & Telecommunications B2
Future of Post Office. Finances
Industrial relations. Postal
Monopoly.

CONFIDENTIAL

Qa 05072

To: MR LANKESTER

From: J R IBBS

Telecommunications: Investment and Pay Negotiations

1. E Committee is due to consider tomorrow the related questions of telecommunications investment and pay negotiations.

2. I believe that the situation on telecommunications is one where clarity of objectives is all important. Against the background of the Government's main strategies I suggest that the three principal priorities are as follows:

(a) that the pay settlements should be the very lowest possible without incurring major disruption of the telephone service;

(b) that the EFL should not be exceeded;

(c) that the strategic part of the investment programme should be retained because on this depends the nation's chance to benefit from the development of information technology and the commercial opportunities this will bring.

These priorities imply that, although regrettable, some increase in the telephone tariff and some reduction in the least strategic part of the investment programme may well be unavoidable.

3. The level to be aimed at in the pay settlement is a matter of practical judgement and I am too far removed from the situation to be able to say what this is. Obviously 17 per cent would be preferable to 20 per cent. Pressure needs to be put on the management to settle as low as possible. If they concede a higher settlement this must not be recouped by relaxation of the EFL because in present circumstances this would be a dangerous precedent likely to encourage high wage claims elsewhere. It would therefore be necessary to obtain the money by increased internal efficiency, cutting non-strategic investment, and greater increase in tariffs. I also find it hard to believe the contention, recorded in the Secretary of State for Industry's minute to the Prime Minister dated 18 June, that there is little scope for a self-

financing productivity scheme. It is possible that with a reduction in the Post Office monopoly, competition for the supply and installation of terminal equipment will stimulate higher productivity.

4. On the investment programme it is necessary to distinguish between that part which is of strategic importance and that part which although possibly very profitable is not crucial to the nation's ability to participate in the broad development of information technology.

5. Some three-quarters of our telephone equipment is still electro-mechanical and obsolete. Rapid conversion to electronic equipment, in particular the installation of System X, will aid industrial efficiency, give more reliable service, encourage the development of new information and service businesses, and help the City to retain its place as a leading centre of financial and other services. System X also has export potential and this needs to develop from a strong base of domestic installations.

6. There must be some parts of the investment programme which are of less strategic priority. For example, even if there is an attractive financial return and a good case for reducing waiting lists, the fundamental importance of increasing residential penetration to 87½ per cent by 1985 is less.

7. A further way that might be considered for the Post Office to increase cash flow would be for them to sell rather than rent telephone equipment and other attachments, or at least offer this as an attractive option to subscribers.

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

JF.

8 July 1980

cc Mr Duguid

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

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS AND THE EFL — not yet received

You will have seen Keith Joseph's letter to me of 4 July, as well as Jim Prior's minute to you.

2. As you know, I fully share your concern both about the pay side and about the prospect of a further large overrun on an EFL. I think it is an important political aim that we should pin the blame where it belongs on management and unions.

3. A pay settlement at the level Sir William Barlow has in mind, coming at this time, is bound to be the subject of intense criticism from those parts of the private sector which are under the greatest pressure from the present economic situation. I suggest that, as a minimum, our aim on this front is to exert pressure through our handling of the EFL to prevent the offer at present on the table (which I understand already to amount to 17 per cent, plus a productivity element of about 2 per cent), from being raised.

4. I would be against agreeing to any overrun on the EFL or presenting such a relaxation as an "end year adjustment". The latter, in the form we have agreed the Ryrie group should consider, is conditional on an equal deduction from the EFL in the following year. The reasons for the excess in this case have no self-correcting element and the EFL for next year

/has not

has not yet been fixed. But the main point is that a relaxation of the EFL at this point would look like, indeed would be, an acceptance of the fact that a very high pay settlement will be accommodated by an effective relaxation of the EFL.

5. With much misgiving I agree with Keith than an Autumn tariff increase is bound to play a part in the corrective measures. I do not think we can contemplate an increase as high as 25 per cent. Even 20 per cent is deeply disturbing: certainly it is the highest we can contemplate and it is clearly important to bring it in on 1st October or earlier if that is still possible. I am sure that, as Keith said, we should let Sir William know our views at the earliest possible opportunity.

6. At the same time as the tariff increase becomes public, I suggest we should announce a reference to the Monopolies Commission. I understand that "installation, repair and maintenance" would be a suitable subject for reference. We should also go at least as far as Keith has proposed for removing the monopoly. These are the kind of steps that seem so urgently needed if we are to break through the apparently complacent willingness of this (potentially) modern, growth industry to go on making the most of a monopolistic inflationary round-about.

7. The remaining excess on the EFL will depend partly on the size and date of the tariff increase and partly on the size of the pay increase for telecommunications and on whether it is kept to a low enough level to avoid the postal workers reopening their earlier 15 per cent settlement. I

/would certainly

would certainly favour the measures described in paragraphs 5 - 7 of Keith's letter (rephasing investment, some deferment of payment to creditors and a delay in payment of the telecommunications settlement). But I would want the Post Office to be pressed to eliminate the remaining excess, which should not be unmanageable for such a large business. I would hope that this could be met by further action on the labour side, e.g. by a ban on recruitment or reductions in overtime payment but if this was not possible the Post Office would have to take some further action in the other areas Keith has mentioned.

8. Finally I would suggest that whatever deal is reached with the Post Office management should include a commitment from them to prepare, or allow to be prepared, a comprehensive, and perhaps initially confidential, report on restrictive labour practices throughout the new Corporation. If the Monopolies Commission could contribute to this so much the better but I understand the case for restricting the remit given to the Commission and it might be necessary to bring in outside consultants.

9. I am sending copies of this minute to members of E Committee and Sir Robert Armstrong.

Mr Hall

Approved by the Chancellor and
signed in his absence

(G.H.)
4 July 1980

JH

CONFIDENTIAL

cc A Duguid

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

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

4 July 1980

PS/MR Butler
PS/MR Marshall
PS/Secretary
MR Gelt
MR Scorgie
MR Mowle
MR Irwin
MR Wiggins

Dear Geoffrey.

TELECOMMUNICATIONS PAY NEGOTIATIONS

1 Following our discussion ~~at lunch~~ yesterday I had a further meeting with Sir William Barlow about the Telecommunications pay negotiations.

2 He seems to be reasonably confident that he can settle at an increase of about 20%. If a settlement were to be agreed at such a figure by the Union's Executive, it would have to be referred to a further special conference given the existing mandate to the Executive to seek a rise of 37%. The Executive expect this conference to endorse any settlement they agree with the Post Office. However, it would be unrealistic to expect a settlement significantly below 20% in the light of the settlements made with British Rail workshop and clerical employees (20% plus a one hour reduction in the working week (worth another 2½%)), water manuals (21.4%) and non-manuals (20% plus an extra day's holiday) and electricity supply manuals (20%). None of these enterprises has the same background of profitability as the Post Office.

3 If Sir William is right and the POEU Executive are able to persuade their conference to accept a settlement of around 20% there will be a substantial over-run on the EFL for 1980/81. The Post Office have already identified £100 million of economies and the remaining options for reducing this shortfall are to increase tariffs still further or earlier and to cut back on the investment programme.

4 In view of this it might be useful if we could decide on the maximum acceptable tariff increase. The Post Office, as you know, are planning to raise tariffs by 17½% on 1 November to keep within their financial target of a 6½% real rate of return for 1981/82 and to bring in an extra £150million revenue in 1980/81. If this increase were raised to 20% it would produce another £30 million; if the 17½% increase were brought forward to 1 October it would produce another £60 million; and if it were brought forward to 1 October and raised to 20% it would produce another £90 million.

5 Whilst I appreciate the cutback in investment might be preferable to a higher and earlier tariff increase, the Post Office have told me convincingly that any substantial cut-back this year will be costly both because of the cancellation charges involved and because it would lead to substantial redundancies by the manufacturers. I have considered whether the leaders of the Unions of those made redundant (principally Frank Chapple and Terry Duffy) would be in a position to exert moral pressure on the POEU. However, they have recently obtained settlements in the region of 18%-20% and in Sir William's view would not carry weight with the POEU. The maximum we can expect from any rephasing of investment in 1980/81 is £50 million.

6 The Post Office pressed hard for reconsideration of their proposals for a scheme to finance stocks and for factoring debt. I understand that Treasury officials see no way of reconciling these proposals with the need to restrict the money supply and I accept that we cannot have recourse to them. The Post Office have already identified £100m that can be raised by deferring payments to creditors and I am against pressing them further in this direction.

7 I did explore other possibilities such as delaying the payment of any incrase in pay and Sir William Barlow did not rule this out. If the Post Office delayed payment of the new settlement for some 10 weeks - say up to the date of the tariff incrase - there could be a saving of some £60m in 1980/81.

8 Taking into account these savings, the effect of various tariff increases would be as follows:-

	Tariff increase	Operative Date	EFL gap
			£m
(i)	17½	1 Nov	112
(ii)	20	1 Nov	82
(iii)	17½	1 Oct)	52
	or 22½	1 Nov)	
(iv)	20	1 Oct)	22
	or 25	1 Nov)	
(v)	22½	1 Oct)	(8)
	or 27½	1 Nov)	

I would hope that if we could prevail on the Post Office to narrow the gap to under £100m, you would consider some end year adjustment to the EFL, given that a substantial proportion of the Post Office's EFL excess is due to factors outside their control - namely an inflation rate above the 13% assumed when the EFL was set, and a lower GDP outturn. £105m of the EFL excess is attributable to the change in the RPI assumption from 13%to 17%.

9 I would welcome any early discussion with you to decide on our attitude to the Post Office's EFL. If we are to go for an earlier and higher tariff than the Post Office are currently working on, I will need to make this clear to Sir William Barlow at the earliest possible opportunity.

10 I am copying this to the Prime Minister, members of E Committee and Sir Robert Armstrong.

Yours,

Kenneth

cc M. Dugmid.

Post + Telecom

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SWIE 6RB
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7/7

PS/Secretary of State for Industry

4 July 1980

David Wright Esq
Private Secretary to
Sir Robert Armstrong
Cabinet Office
Whitehall
London SW1

Dear David

In connection with the E meeting on Wednesday 9 July, I attach copies of correspondence relevant to the item on Telecommunications pay.

I am copying this letter and enclosures to all private secretaries to members of E.

Yours sincerely
Graham Austin

GRAHAM AUSTIN
Private Secretary

RECEIVED IN
3 JUL 1980
SECRETARY OF STATE
CYPRUS OFFICE

CONFIDENTIAL

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

I have seen copies of the exchange of correspondence about the POEU pay negotiations.

This is indeed an extremely disturbing and unpalatable situation. The current offer amounts to 17% (not 15% as frequently quoted) and it seem clear that Sir William Barlow's settling target is more than 20%. I agree with the Chancellor that this is noticeably above other nationali industry settlements in the current pay round, and is most untimely. Moreover, previous experience with recent Post Office settlements suggests that the actual outcome in terms of earnings (as distinct from rates) could well be significantly higher.

Having said that, I think we have no choice but to accept Keith Joseph' view that there is no realistic alternative to leaving the handling of the negotiations to Sir William Barlow, who will have to make the best settlement that he can manage. I would, however, add that protracted strike action by the POEU over negotiations around figures at this kind of level seems to me most unlikely. I am not in a position to judge the possible impact of more selective action.

I am copying this minute to the recipients of the previous correspondenc

J P
3 July 1980

RECEIVED IN
4 JUL
SECRETARY OF STATE
FOR INDUSTRY'S OFF

10 DOWNING STREET

From the Private Secretary

3 July 1980

Dear Ian.

Telecommunications Pay Negotiations

The Prime Minister has read your Secretary of State's minute of 30 June and is very concerned about what he is proposing. She would like his minute, and comments from other Ministers, to be considered in E Committee next week.

I am sending copies of this letter to John Halliday (Home Office), Martin Hall (H.M. Treasury), Brian Norbury (M.O.D), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours ever

Tim Lankester.

I. K. C. Ellison, Esq.,
Department of Industry.

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

We discussed my minute of 18 June about the POEU pay claim at our meeting with the Chancellor on 19 June. Since then I have seen the Chancellor's minute of 20 June and Sir William Barlow has called on me.

It now appears that, on the assumptions that the pay claim is settled at about 20% and that the tariff is not increased beyond the 14% scheduled for 1 January 1981, the EFL excess may be as much as £472 million. The main reasons for this serious deterioration are inflation, changes in debtor positions, a fall-back in revenue from the profitable international traffic, and the growing impact of recession.

In order to help remedy the situation the Post Office Board have agreed to bring forward the tariff increase from 1 January to 1 November and to increase it to 17½%. This would contribute some £150m towards meeting the EFL excess but would add 0.2% to the RIP in a full year. The Board have also identified a further £100m to be raised by savings through deferred creditors. I am reluctantly prepared to agree to this, despite its adverse impact on the private sector. I am not, however, prepared to agree to the Post Office's scheme to finance stocks since this is clearly a device to get round the EFL. Other savings might

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be obtainable through stock reductions, deferring the date when pay increases take effect, reduced overtime, property sales etc but these are matters for the Post Office to decide and it is not open to us to direct the Board to take any particular course of action. Some of these savings might damage the quality of the service.

At my meeting with him I pressed Sir William hard to see if any savings could be made by reducing investment. The Post Office is extremely reluctant to contemplate any further cut in its investment programme for 1980/81. However, given the large size of their investment programme (£1500 million a year), it is not inconceivable that some rephasing of investment expenditure at the margin could make a small contribution towards covering the impact of the pay settlement without significant adverse effect on manufacturing industry which is dependent on Post Office orders or on efforts towards improving the not altogether satisfactory quality of service. I believe that a cut back on investment of up to £50m for 1980/81 could be achieved without dangerous side effects. This leaves approximately £172m of EFL excess still to be covered. The sum might be smaller, if the Post Office succeeds in making economies, but it could be even larger if the pay settlement exceeds 20%, since each 1% addition to the pay bill costs £15 million. I shall urge Sir William to mobilise the unions involved in the manufacture of products that would suffer if investment were cut to urge the POEU to moderate their pay claim.

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The options we face are stark. I am convinced that we should not relax our stand on the EFL. To do so would have serious repercussions on other nationalised industries and would greatly aggravate the Chancellor's problems in restraining the PSBR. I am also convinced that we should not reduce Post Office investment by more than the marginal sum I have proposed; a greater cut would harm our manufacturing industry and would risk serious damage to the development of our telecommunication services on which so much depends. This leaves two alternatives.

On the one hand we can agree to the Telecommunications business borrowing additional funds outside the EFL, provided the funds are in fact borrowed without a Government guarantee by companies in which the private sector has a more than 50% shareholding. Sir William Barlow is strongly averse to this course and there are serious practical difficulties in the way of establishing free standing companies in the nine months of the financial year which remain. But it does represent a way out of the difficulties which is consistent with our overall objectives.

The only other option is to acquiesce in the Telecommunications business recovering the EFL excess by still larger tariff increases. An increase of 26% on 1 October would raise the necessary funds. But the date may not be practicable and the increase might have to wait until 1 November, in which case the increase would have to be 28% if the EFL is to be met. A 26% tariff increase would add 0.312% to the RPI in a full year and a 28% increase would add 0.336%. Tariff increases on this scale are clearly

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unpalatable. I shall expect Sir William to squeeze expenditure for every possible saving before agreeing to any tariff increase beyond the 17½% now proposed for 1 November.

I believe we have no realistic alternative to leaving the Post Office to negotiate as it thinks best, provided it is clearly understood that the cost of any pay increase will have to be met within the existing EFL. I think we can legitimately remind Sir William Barlow of the Chancellor's comment about the level of settlements in other nationalised industries. But if we were to go further we should convert a normal pay negotiation into a confrontation between the Government and the unions. We cannot ignore the risk of the unions selectively doing significant damage to the economy so that we would be obliged to concede extra pay increases. I can make no firm predictions about the size of the damage but the unions have digested the lessons of the computer operators' strike last year.

I am, however, convinced that we need to act to reduce the POEU's power to control the nation's Telecommunications jugular. Subject to our colleagues' agreement, I intend to announce significant relaxations in the telecommunications monopoly shortly. I have also told Sir William that any abuse by the POEU of their monopoly position in order to influence the current pay negotiations would have a significant influence on the way the Government exercises its powers to liberalise the monopoly. I have already stressed to Sir William the need to ensure that the public understands

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the direct link between tariff increases and POEU pay. I shall reinforce this in my own speeches.

I am copying this minute to the Home Secretary, the Chancellor of the Exchequer, to the Secretaries of State for Defence, Employment and Trade and to Sir Robert Armstrong.

KJ

30 June 1980

Department of Industry
Ashdown House
123 Victoria Street

20 JUN 1980
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

10 DOWNING STREET

From the Private Secretary

20 June 1980

Dear Ian,

Telecommunications Pay Negotiations

At the end of the Prime Minister's meeting with your Secretary of State and the Chancellor of the Exchequer yesterday morning, they had a brief word about your Secretary of State's minute of 18 June on the above subject.

The Prime Minister said she was very disturbed by the developments in the telecommunications pay negotiations as reported. However, she did not think the Government could take a strike. At the same time, she was not inclined to accept the proposition that a settlement in excess of 15% should be financed by a larger and earlier increase in the tariff than the 14% increase planned for 1 January 1981. For it was crucial that the Government should not be seen adding further increases to the RPI except where it was absolutely necessary. If there had to be additional cash for wages, this should be found by reducing the Post Office's investment programme.

Sir Keith said that, as between higher tariffs or a reduced investment programme, he was sure that industry would prefer the former. However, he would consider the options further and report back to the Prime Minister.

I am sending copies of this letter to John Chilcot (Home Office), John Wiggins (HM Treasury), Brian Norbury (Ministry of Defence), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

Yours,

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

23 JUN 1980
SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

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

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS AND THE EFL

We agreed yesterday that Keith Joseph would be circulating a note considering the options on the telecommunications front. In advance of that I have 3 points. First, I can see no justification for a pay increase of the size which Sir William Barlow and the Board are envisaging. "About 20 per cent plus a small sum nominally for productivity" would be higher than the highest settlement so far in the nationalised industry field (the 20 per cent settlement in British Railways which was linked to progress on productivity schemes for the current year as well as to discussions about further advances later). It is also a lot higher than we want to see in the next round, and we are near enough to that in time to be looking for some downward movement in public sector pay settlements generally. Moreover, the settlement on the posts side was only 15 per cent and, as Keith pointed out in his minute to you of about 19th May, this might be reopened if the Post Office go ahead with a substantially higher settlement on telecommunications, which would be the result of misuse of monopoly power and be seen as a surrender.

2. Secondly, the reference to the supplier credit scheme on page 2 of Keith's minute does not reflect the arguments which my officials have put to his. This is another financing device which would make a mockery of EFLs and would be widely imitated by other industries with large capital programmes and EFL difficulties. If we allowed this scheme to go ahead outside the EFL, it would make the task of controlling the money supply harder, involve

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us in encouraging new forms of bank lending at a time when we are trying to discourage them, and add to the upward pressure on short-term interest rates by worsening the banks' liquidity problems. I am sure we should not agree to this device.

3. Thirdly, it follows that the options to be considered - and I agree with Keith that we cannot exclude tariff action - need to be large enough to deal with the EFL problem as a whole and not just with the cost of the proposed additional pay increase.

4. I am sending copies of this minute to Keith Joseph, Willie Whitelaw, Francis Pym, Jim Prior and John Nott, and to Sir Robert Armstrong.

Mark Hall

[Approved by the Chancellor of the Exchequer and signed in his absence.]

(G.H.)
20 June, 1980

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PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

Sir William Barlow came to see me recently to explain the very difficult position the Post Office has now reached in its negotiations with the Post Office Engineering Union (POEU) on its 1979-80 pay settlement, and to seek my guidance in the light of the major problems that the Post Office is likely to face in the very near future.

The POEU first lodged a formal claim for an increase of 23% in basic rates, based on their projection of the rate of inflation as measured by the RPI over the 12 month period ending 30 June 1980. That claim was rejected by the Post Office who offered to raise basic pay by 15% from the settlement date - 1 July 1980 - in return for full cooperation in efficiency and improvements in the quality of service. In addition the Post Office offered an unconsolidated bonus of 2% in acknowledgement of continuing cooperation from the Union. The Post Office offer was rejected out of hand by the Union. At its annual conference on 3 June the POEU's National Executive Council was instructed to seek a pay increase of 30% plus an additional productivity payment of 7%. The conference also mandated the Executive Council to institute industrial action on 4 August 1980 if an acceptable settlement was not reached by the end of July.

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Even before the POEU pay claim, the corporation were in serious difficulties with their external financing limit this year, which assumed a wage increase of 11%. On the basis of a 15% wage offer the telecommunications business now forecasts an overshoot of up to £283m on its share of the corporation's EFL, even after allowing for a projected 14% tariff increase on 1 January 1981. There are various reasons for this underlying deterioration: the major ones being the effect of higher than anticipated price inflation on the business's current and capital costs; increased working capital requirements which have resulted from a combination of expanded stocks and creditors deferred from 1979/80; and the effects on the pay bill of recent arbitration awards.

The Post Office have identified some £100m savings which they could make largely through deferred creditors, and have also suggested a supplier credit scheme whereby a substantial part of the business's work in progress would be financed by the private sector. I am not entirely content about the extra burdens this would place on the private sector but the sums involved could go a long way towards covering the current EFL overshoot and officials are exploring these possibilities.

There is little doubt that the Post Office engineers are in a militant mood and the threat of industrial action cannot be dismissed lightly. The form that such action might take can only be a matter

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for speculation. In 1977-78 the POEU followed a policy of non-cooperation, including a ban on overtime and a (cumulatively serious) refusal to connect new equipment. But recent experience with other unions in the Post Office suggests that the POEU may take selective action against particularly sensitive targets, for example the City of London, the major telephone/telex exchanges, airline data links, satellite terminals and the ITV broadcasting system, where they can achieve maximum disruption to services at a minimal cost to themselves. Although an all-out strike seems unlikely, it cannot be ruled out. During past disputes the POEU has traditionally ensured that essential services should not be disrupted. These include services to hospitals, ambulances, fire services and the police. Again we cannot be certain that such cooperation will be forthcoming on this occasion.

The POEU settlement is one of the last in the 1979/80 pay round. Generally speaking the level of settlements in the public trading sector have been well in excess of 15%, especially in coal, electricity and gas. The weighted averaged increase since August 1979 in the public trading sector has been 18%, and in the private sector generally about 18½%.

The original POEU claim for 23% was based essentially on the RPI. Although we expect this to fall shortly it will not come soon enough to materially influence the POEU's thinking. The RPI is likely to be at its peak at the most critical point

.../4

in negotiations and a settlement must be achieved by the end of July in industrial action in early August is to be avoided.

Sir William Barlow told me earlier this week that he would be willing to stand firm on 15% if he could be assured that the Government would stand openly behind him and accept the consequences of industrial disruption. However, I understand that after discussion with his Board he now considers that a final offer of 15% would be an unrealistic figure on which to enter into a direct confrontation with the unions and would not be willing to enter into a dispute on that basis. He and the Board believe that some further flexibility, with the aim of negotiating up to about 20% plus a small sum nominally for productivity, is necessary if only to bring the Post Office offer up to the level of pay awards which have been made generally in the public trading sector. They regard the POEU conference demand for 37% as totally unreasonable but do not think that the POEU will settle for less than 20% plus without resorting to industrial action.

Sir William Barlow has assured me that productivity in the telecommunications business is increasing. But this is mainly as a result of the large investment programme and the technological improvements. He does not see much scope for improving the pay offer by an additional productivity deal on a self-financing basis.

It seems to me that, short of a major departure in our policy on external financing limits, we have effectively only two

choices. We can ask Sir William Barlow to stand firm on the Post Office's present 15% pay offer but this would almost certainly lead to industrial action, which is likely to be prolonged, and there is no guarantee that it could be brought to an end without the Post Office being obliged to concede a substantially improved offer. The costs of industrial disruption would further aggravate the Post Office's current excess of EFL, quite apart from perhaps doing serious damage to the rest of the economy. The alternative is to allow the Post Office to reach the best settlement possible on the clear understanding that the cost of the increase will have to be recouped either by reduced investment or by a larger and earlier increase in the tariff than the 14% increase planned for 1 January 1981. I am reluctant to contemplate the added burden which tariff increases would place on the public but reduced investment would be even more undesirable since this might seriously harm the telecommunications service, which may already be suffering from under-investment, and would deprive the private sector of orders on which the firms concerned depend.

My own personal view is that the least of the evils is to allow the Post Office to conduct the negotiations as it thinks best and to recover the cost by an early tariff increase. But if we adopt this course it will be of the utmost importance that the necessary tariff increases should be announced as quickly as possible after the settlement in order to bring home to the public that it is the POEU which are responsible for much of the tariff

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increases. An announcement could be made immediately the pay settlement emerges, which would make clear to the public the direct link between Post Office pay and price increases, but the increases themselves could not be implemented for some weeks until POUNC had been consulted. I am exploring the scope for accelerating POUNC's procedures.

I have considered whether there is any action the Government could usefully take, while still preserving our position of complete neutrality in pay bargaining. I am bound to conclude that there is no direct pressure that we can bring to bear.

I am, however, increasingly concerned about the POEU's ability to bring about a deterioration in virtually all telecommunications services some of which are vital to the nation's commercial, economic, social and defence activities. The POEU in turn is concerned about the announcement I will shortly be making on the question of relaxations of the telecommunications monopoly. I am therefore looking into the technical feasibility of satellite business systems and of other options which would allow the private sector to provide telecommunications services outside the control of the POEU. But it would be inadvisable for me to link my forthcoming announcement of my proposals for relaxing the Post Office monopoly to any particular pay negotiation or to refer to the POEU in my announcement. I therefore propose to encourage the Chairman of the Post Office to make it clear that any attempt by the POEU to abuse its monopoly position in furtherance of an excessive pay claim will prompt the Government

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to consider much wider and more far-reaching relaxations of the Post Office's monopoly than we are currently planning. This might influence some members of the POEU to think twice about prolonged industrial action, (but there must, however, be a risk that threats of that nature could make the POEU more obdurate).

There is no doubt that we are facing a difficult situation. We will get no thanks from the general public, from industry or from the City if we pursued a course that lead to serious disruptions of the telecommunications and television services. On the other hand no users of the system will welcome a further increase in tariffs; but the blame for increases could be attributed to the intransigence of the Unions and would greatly strengthen the case for relaxing the present monopoly.

In the circumstances I see no alternative to our standing back from these pay negotiations and allowing the Post Office management to resolve the issue on the lines they propose.

I am copying this minute to Willie Whitelaw, Geoffrey Howe, Francis Pym, Jim Prior and John Nott, and to Sir William Armstrong.

KJ

Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

18 June 1980

VLS

10 DOWNING STREET

From the Private Secretary

3 July 1980

Telecommunications Pay Negotiations

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T. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

VLS

CONFIDENTIAL

Prime Minister 2
This will go to E next Wednesday.

PRIME MINISTER

Can we not keep it for discussion on Tuesday when Keith is available for that day?

Chancellor's comments of 4/7 attached

Sophie Duty Clerk

TELECOMMUNICATIONS PAY NEGOTIATIONS

I have seen copies of the exchange of correspondence about the POEU pay negotiations.

This is indeed an extremely disturbing and unpalatable situation. The current offer amounts to 17% (not 15% as frequently quoted) and it seems clear that Sir William Barlow's settling target is more than 20%. I agree with the Chancellor that this is noticeably above other nationalised industry settlements in the current pay round, and is most untimely. Moreover, previous experience with recent Post Office settlements suggests that the actual outcome in terms of earnings (as distinct from rates) could well be significantly higher.

Having said that, I think we have no choice but to accept Keith Joseph's view that there is no realistic alternative to leaving the handling of the negotiations to Sir William Barlow, who will have to make the best settlement that he can manage. I would, however, add that protracted strike action by the POEU over negotiations around figures at this kind of level seems to me most unlikely. I am not in a position to judge the possible impact of more selective action.

I am copying this minute to the recipients of the previous correspondence.

J P
3 July 1980

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CONFIDENTIAL

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

We discussed my minute of 18 June about the POEU pay claim at our meeting with the Chancellor on 19 June. Since then I have seen the Chancellor's minute of 20 June and Sir William Barlow has called on me.

It now appears that, on the assumptions that the pay claim is settled at about 20% and that the tariff is not increased beyond the 14% scheduled for 1 January 1981, the EFL excess may be as much as £472 million. The main reasons for this serious deterioration are inflation, changes in debtor positions, a fall-back in revenue from the profitable international traffic, and the growing impact of recession.

In order to help remedy the situation the Post Office Board have agreed to bring forward the tariff increase from 1 January to 1 November and to increase it to 17½%. This would contribute some £150m towards meeting the EFL excess but would add 0.2% to the RIP in a full year. The Board have also identified a further £100m to be raised by savings through deferred creditors. I am reluctantly prepared to agree to this, despite its adverse impact on the private sector. I am not, however, prepared to agree to the Post Office's scheme to finance stocks since this is clearly a device to get round the EFL. Other savings might

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CONFIDENTIAL

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At my meeting with him I pressed Sir William hard to see if any savings could be made by reducing investment. The Post Office is extremely reluctant to contemplate any further cut in its investment programme for 1980/81. However, given the large size of their investment programme (£1500 million a year), it is not inconceivable that some rephasing of investment expenditure at the margin could make a small contribution towards covering the impact of the pay settlement without significant adverse effect on manufacturing industry which is dependent on Post Office orders or on efforts towards improving the not altogether satisfactory quality of service. I believe that a cut back on investment of up to £50m for 1980/81 could be achieved without dangerous side effects. This leaves approximately £172m of EFL excess still to be covered. The sum might be smaller, if the Post Office succeeds in making economies, but it could be even larger if the pay settlement exceeds 20%, since each 1% addition to the pay bill costs £15 million. I shall urge Sir William to mobilise the unions involved in the manufacture of products that would suffer if investment were cut to urge the POEU to moderate their pay claim.

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the direct link between tariff increases and POEU pay. I shall reinforce this in my own speeches.

I am copying this minute to the Home Secretary, the Chancellor of the Exchequer, to the Secretaries of State for Defence, Employment and Trade and to Sir Robert Armstrong.

KJ

K J

30 June 1980

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL

Post + Telecoms.

de Hoskyns
Wolfson

10 DOWNING STREET

From the Private Secretary

20 June 1980

cc Master set.

Telecommunications Pay Negotiations

At the end of the Prime Minister's meeting with your Secretary of State and the Chancellor of the Exchequer yesterday morning, they had a brief word about your Secretary of State's minute of 18 June on the above subject.

The Prime Minister said she was very disturbed by the developments in the telecommunications pay negotiations as reported. However, she did not think the Government could take a strike. At the same time, she was not inclined to accept the proposition that a settlement in excess of 15% should be financed by a larger and earlier increase in the tariff than the 14% increase planned for 1 January 1981. For it was crucial that the Government should not be seen adding further increases to the RPI except where it was absolutely necessary. If there had to be additional cash for wages, this should be found by reducing the Post Office's investment programme.

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T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

Prime Minister 2

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

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS AND THE EFL

We agreed yesterday that Keith Joseph would be circulating a note considering the options on the telecommunications front. In advance of that I have 3 points. First, I can see no justification for a pay increase of the size which Sir William Barlow and the Board are envisaging. "About 20 per cent plus a small sum nominally for productivity" would be higher than the highest settlement so far in the nationalised industry field (the 20 per cent settlement in British Railways which was linked to progress on productivity schemes for the current year as well as to discussions about further advances later). It is also a lot higher than we want to see in the next round, and we are near enough to that in time to be looking for some downward movement in public sector pay settlements generally. Moreover, the settlement on the posts side was only 15 per cent and, as Keith pointed out in his minute to you of about 19th May, this might be reopened if the Post Office go ahead with a substantially higher settlement on telecommunications, which would be the result of misuse of monopoly power and be seen as a surrender.

2. Secondly, the reference to the supplier credit scheme on page 2 of Keith's minute does not reflect the arguments which my officials have put to his. This is another financing device which would make a mockery of EFLs and would be widely imitated by other industries with large capital programmes and EFL difficulties. If we allowed this scheme to go ahead outside the EFL, it would make the task of controlling the money supply harder, involve

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us in encouraging new forms of bank lending at a time when we are trying to discourage them, and add to the upward pressure on short-term interest rates by worsening the banks' liquidity problems. I am sure we should not agree to this device.

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4. I am sending copies of this minute to Keith Joseph, Willie Whitelaw, Francis Pym, Jim Prior and John Nott, and to Sir Robert Armstrong.

Mark Hall

pp (G.H.)
20 June, 1980

[Approved by the Chancellor of the Exchequer and signed in his absence.]

JFF

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CONFIDENTIAL

Prime Minister · Post + Telecoms

Although these negotiations are part of the 1979/80 pay round, a settlement of 20%+ will not help with conditioning expectations in the forthcoming round. But there is probably no realistic alternative to standing back and letting the Post Office get on with the negotiations.

The Chancellor is likely to comment on Sir Keith's minute tomorrow, saying that the pay problem should be seen in the wider context of the EFL position (on which a substantive paper is expected from Sir Keith next week).

You may like a preliminary word with the Chancellor and Sir Keith when you see them tomorrow morning about Ponsonby Street.

Kathl 18/6

cc to Mr Wolfson
Mr Hodgson.
Have discussed with K.J

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

Sir William Barlow came to see me recently to explain the very difficult position the Post Office has now reached in its negotiations with the Post Office Engineering Union (POEU) on its 1979-80 pay settlement, and to seek my guidance in the light of the major problems that the Post Office is likely to face in the very near future.

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CONFIDENTIAL

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for speculation. In 1977-78 the POEU followed a policy of non-cooperation, including a ban on overtime and a (cumulatively serious) refusal to connect new equipment. But recent experience with other unions in the Post Office suggests that the POEU may take selective action against particularly sensitive targets, for example the City of London, the major telephone/telex exchanges, airline data links, satellite terminals and the ITV broadcasting system, where they can achieve maximum disruption to services at a minimal cost to themselves. Although an all-out strike seems unlikely, it cannot be ruled out. During past disputes the POEU has traditionally ensured that essential services should not be disrupted. These include services to hospitals, ambulances, fire services and the police. Again we cannot be certain that such cooperation will be forthcoming on this occasion.

The POEU settlement is one of the last in the 1979/80 pay round. Generally speaking the level of settlements in the public trading sector have been well in excess of 15%, especially in coal, electricity and gas. The weighted averaged increase since August 1979 in the public trading sector has been 18%, and in the private sector generally about 18½%.

The original POEU claim for 23% was based essentially on the RPI. Although we expect this to fall shortly it will not come soon enough to materially influence the POEU's thinking. The RPI is likely to be at its peak at the most critical point

.../4

in negotiations and a settlement must be achieved by the end of July in industrial action in early August is to be avoided.

Sir William Barlow told me earlier this week that he would be willing to stand firm on 15% if he could be assured that the Government would stand openly behind him and accept the consequences of industrial disruption. However, I understand that after discussion with his Board he now considers that a final offer of 15% would be an unrealistic figure on which to enter into a direct confrontation with the unions and would not be willing to enter into a dispute on that basis. He and the Board believe that some further flexibility, with the aim of negotiating up to about 20% plus a small sum nominally for productivity, is necessary if only to bring the Post Office offer up to the level of pay awards which have been made generally in the public trading sector. They regard the POEU conference demand for 37% as totally unreasonable but do not think that the POEU will settle for less than 20% plus without resorting to industrial action.

Sir William Barlow has assured me that productivity in the telecommunications business is increasing. But this is mainly as a result of the large investment programme and the technological improvements. He does not see much scope for improving the pay offer by an additional productivity deal on a self-financing basis.

It seems to me that, short of a major departure in our policy on external financing limits, we have effectively only two

choices. We can ask Sir William Barlow to stand firm on the Post Office's present 15% pay offer but this would almost certainly lead to industrial action, which is likely to be prolonged, and there is no guarantee that it could be brought to an end without the Post Office being obliged to concede a substantially improved offer. The costs of industrial disruption would further aggravate the Post Office's current excess of EFL, quite apart from perhaps doing serious damage to the rest of the economy. The alternative is to allow the Post Office to reach the best settlement possible on the clear understanding that the cost of the increase will have to be recouped either by reduced investment or by a larger and earlier increase in the tariff than the 14% increase planned for 1 January 1981. I am reluctant to contemplate the added burden which tariff increases would place on the public but reduced investment would be even more undesirable since this might seriously harm the telecommunications service, which may already be suffering from under-investment, and would deprive the private sector of orders on which the firms concerned depend.

My own personal view is that the least of the evils is to allow the Post Office to conduct the negotiations as it thinks best and to recover the cost by an early tariff increase. But if we adopt this course it will be of the utmost importance that the necessary tariff increases should be announced as quickly as possible after the settlement in order to bring home to the public that it is the POEU which are responsible for much of the tariff

increases. An announcement could be made immediately the pay settlement emerges, which would make clear to the public the direct link between Post Office pay and price increases, but the increases themselves could not be implemented for some weeks until POUNC had been consulted. I am exploring the scope for accelerating POUNC's procedures.

I have considered whether there is any action the Government could usefully take, while still preserving our position of complete neutrality in pay bargaining. I am bound to conclude that there is no direct pressure that we can bring to bear.

I am, however, increasingly concerned about the POEU's ability to bring about a deterioration in virtually all telecommunications services some of which are vital to the nation's commercial, economic, social and defence activities. The POEU in turn is concerned about the announcement I will shortly be making on the question of relaxations of the telecommunications monopoly. I am therefore looking into the technical feasibility of satellite business systems and of other options which would allow the private sector to provide telecommunications services outside the control of the POEU. But it would be inadvisable for me to link my forthcoming announcement of my proposals for relaxing the Post Office monopoly to any particular pay negotiation or to refer to the POEU in my announcement. I therefore propose to encourage the Chairman of the Post Office to make it clear that any attempt by the POEU to abuse its monopoly position in furtherance of an excessive pay claim will prompt the Government

.../7

to consider much wider and more far-reaching relaxations of the Post Office's monopoly than we are currently planning. This might influence some members of the POEU to think twice about prolonged industrial action, (but there must, however, be a risk that threats of that nature could make the POEU more obdurate).

There is no doubt that we are facing a difficult situation. We will get no thanks from the general public, from industry or from the City if we pursued a course that lead to serious disruptions of the telecommunications and television services. On the other hand no users of the system will welcome a further increase in tariffs; but the blame for increases could be attributed to the intransigence of the Unions and would greatly strengthen the case for relaxing the present monopoly.

In the circumstances I see no alternative to our standing back from these pay negotiations and allowing the Post Office management to resolve the issue on the lines they propose.

I am copying this minute to Willie Whitelaw, Geoffrey Howe, Francis Pym, Jim Prior and John Nott, and to Sir William Armstrong.

KJ

18 June 1980

Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

JU

Post + Telecoms. 2

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ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

3 June 1980

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

Dear Tim,

Since my letter to you of 22 May on postal productivity the two main telecommunications unions, the Post Office Engineering Union and the Society of Post Office Executives, have jointly lodged pay claims for increases of about 23%. These have been rejected by the Post Office who have said in reply that their maximum offer cannot exceed the 15% settlement already agreed with the Union of Post Office Workers.

These exchanges, the first in the 1980 telecommunications pay round, are likely to continue between the Post Office and its unions over the next month, at least until the settlement day of 1 July and probably longer. Claims from other telecommunications unions such as the Society of Civil and Public Servants and the Civil and Public Servants Association, both of whom have large Post Office groups, can be expected shortly. There is likely to be considerable speculation in the national press as negotiations proceed.

When the Post Office is close to a final settlement we expect to receive full details from the Chairman, together with his assessment of the impact of their proposals on the EFL. I will let you have this information as soon as it is made available to us.

Yours ever,
Pete

PETER STREDDER
Private Secretary

JH

Ind + Tech.

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PS/ *Secretary of State for Industry*

23 May 1980

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

Dear Tim,

Since my Secretary of State's recent minute to the Prime Minister on Post Office pay you will have seen reports in the Press about the approval given at the Union of Post Office Workers' conference to new postal productivity schemes.

As we understand it, two measures were approved allowing local incentive deals to improve efficiency in the postal services:-

a Implementation, from 1 June, of schemes devised over the last 3 or 4 months in the London region;

b Adoption of similar arrangements nationally but (like London) on a voluntary basis.

The essence of each scheme is identifying the savings in overtime and staffing complements which result from more effective mail handling and lead to better service levels. Work measurement techniques are not used per se: instead (so the Post Office advise) there are 'improved methods for assessing workload'. Some 70% of the savings generated will be paid to participants as a bonus.

Delegates at the Conference voted 76,940 to 39,111 in favour of these productivity measures, and later endorsement was given to an arrangement allowing more flexibility over the delivery of "occupier" addressed mail.

The Post Office welcomes both these steps in its efforts to increase the efficiency of operations and improve service levels. The possibility of some relaxation taking place in the postal monopoly has undoubtedly influenced union attitudes in favour of greater co-operation.

I will keep you informed of any further developments.

Yours ever,
Pete

PETER STREDDER
Private Secretary

10 DOWNING STREET

M Hoskyns

Any points?

Andrew

I don't think so do you?

R

NO. UPW quite encouraging; POLL worrying, but KJS is looking at EFL implications. RD.

19/5

Return to T.L

No comments

JU

RESTRICTED

TP(LOR) 2

tosu NJS PRIME MINISTER

We asked for this because of worries about the course of events. The pay side is not too bad, but you should note ✓ X on page 4. NJS 22/5

PRIME MINISTER

I have delayed responding to the request in your Private Secretary's letter of 10 April about the prospects for Post Office pay negotiations this year until more information was available on two current pay matters, the Union of Post Office Workers (UPW) annual settlement and a number of arbitration awards which have only recently been resolved.

At the end of March the Post Office offered a 15% increase in basic pay to the main postal union, the UPW, subject to the union agreeing a list of measures to improve staffing and service levels. The annual settlement date for this union is 1 April.

The offer was put by the UPW Executive to a ballot of branches and was accepted by a majority of 8:1. The main postal business pay settlement for this year is now concluded. No further problems are expected unless the Post Office were to concede a substantially larger pay increase to staff on the telecommunications side which might cause the UPW to seek to re-open the settlement.

One of the measures proposed by the Post Office - the employment of casual staff - was not accepted by the union negotiators and was not put to the ballot. However, the Post Office has made it clear that it reserves the right to recruit casual staff this summer to prevent a repetition of last year's mail backlog.

/The ...

The Chairman of the Post Office has given me assurances that the UPW settlement will not breach the Postal business' share of the Corporation's agreed external financing limit (EFL); nor will any further postal tariff increases be required during the calendar year 1980. However, the indications are that a tariff increase will again be needed early in 1981.

see note A

At its forthcoming Conference on 18-23 May the UPW will be debating the provisional agreement reached in London to identify savings arising from a reappraisal of workloads and manning, and the consequential improvement in postal operations. There has been a very encouraging response from the London offices. The aim is to obtain Conference agreement for the implementation of these measures; and to discuss whether these arrangements should be extended throughout the country. I am in touch with the new deputy Chairman to see whether there is anything more we could do to create a more receptive attitude at the Conference towards acceptance of the productivity proposals.

Of the other groups on the postal side, the postal supervisors' union (Post Office Management Staffs Association - POMSA) has a settlement date of 1 July and negotiations have not yet started. The subpostmasters usually agree terms of remuneration after settlement with the UPW has taken place. No serious difficulties are expected in these negotiations. Overall the prospects on the postal side are reasonably promising.

On the telecommunications side the situation is still fluid. The annual settlement date is 1 July. No formal claims have yet been

/lodged ...

lodged. There have, however, been three recent arbitration awards relating to the 1979 round of pay negotiations, one affecting the main union, the Post Office Engineering Union (POEU), and two affecting the engineering supervisors' union, the Society of Post Office Executives (SPOE). Some elements of these awards have disrupted the orderly restructuring of pay and grades on the telecommunications side which the Post Office were attempting to achieve in 1979 and 1980. Consequential unbudgeted pay costs in 1980/81 are estimated at some £60 million. In addition leap-frogging claims from other unions such as the Civil and Public Services Association (CPSA) and the Society of Civil and Public Servants (SCPS) are now arising, and the Post Office foresees considerable difficulties over this year's telecommunications negotiations.

The Chairman will provide me with a more detailed assessment of the prospects when the situation has been further clarified. It is still possible that there may be a recurrence of the industrial action which so seriously interrupted telephone billing and other service functions a year ago.

There is nothing we can usefully say at the present time about possible improved productivity on the telecommunications side. The Post Office bought out all previously existing productivity schemes in last year's annual settlement as an essential step towards assimilation of all the telecommunications grades into the proposed new pay spine. The Post Office will be looking for a new

/style ...

style telecommunications productivity agreement applicable to all staff in the business and intend to make this a feature of this year's pay negotiations. But as detailed negotiations have not yet commenced there has been no discussion of what form the new scheme will take.

When the Post Office's EFL was set last October an increase of 13% in the RPI was assumed and basic pay increases were allowed for at the 11% level. However, with the RPI close to 20%, the Post Office regard it as unrealistic to anticipate basic settlements much less than 15%. In addition to the impact of the arbitration awards, an increase to 15% in basic pay costs on the telecommunications side would add a further £60 million to the paybill.

I shall be discussing with Sir William Barlow what effect this will have on the EFL and what advance steps must now be taken to contain the situation. I will keep you informed.

X The unions, and staff, in both businesses are strongly opposed to any relaxation of the postal or telecommunications monopolies. I cannot rule out the possibility of some industrial action when our proposals for relaxation are made public.

I am sending copies of this minute to Geoffrey Howe, Jim Prior, Paul Channon and Sir Robert Armstrong.

K J

May 1980

Department of Industry
Ashdown House
123 Victoria Street

cc AD

RH

B/F 17.4.80.

10 April 1980

The Prime Minister is concerned about the prospects for the Post Office pay negotiations. She would be grateful if your Secretary of State would send her a note setting out the prospect as he sees it.

I am sending a copy of this letter to Martin Hall (Treasury), Andrew Hardman (Department of Employment) and David Wright (Cabinet Office).

T. P. LANKESTER

I K C Ellison, Esq
Department of Industry

PRIME MINISTER

Prime Minister
Would you like me to i) write as in para 2.2?
ii) set up a meeting - I would suggest ECEA) - to discuss the Post Office position?
FL 3/4

BRITISH RAIL

1. PRESENT SITUATION

1.1 Norman Fowler's minute to you appears to present a very soft line in hawkish terms. Parker appears to have opened the bidding with a 17.7% offer. We understand from Cabinet Office that the original allowance was for a 15% increase without productivity - not very tight compared with British Steel or British Leyland. Next in line will be the Post Office. Fowler says that if Parker's proposed management changes are successful, there will be a reduction in the (much over-manned) labour force of 11,000 jobs over the next 3 years - we calculate this as about 1½% of the work force per annum.

1.2 The one agreed fare increase of 19-20% was the basis for the original cash limit. Fowler says that he thinks it would be very difficult to justify further commuter increases, but is apparently now prepared to consider increases in freight and Inter-City charges.

1.3 We asked Cabinet Office on 12 March whether any collective thinking was going on in anticipation of the British Rail negotiations, but nothing was happening outside Transport. We now have what looks close to a fait accompli, on British Steel lines, but with a much higher opening offer.

2. SUGGESTED ACTION

2.1 It seems important to cry halt before Parker rejigs the package to give the rail unions whatever they want in order that he and they should have a peaceful life.

2.2 You might therefore like to consider asking Fowler:

(a) To [instruct] Parker to "stick" at 13% (apparently the offer is in two parts, 13% now and 4% at some stage in the future) without strings and no further increases without productivity.

We have no power of specific direction: Mr Fowler could at most "suggest".

FL.

N. R

(b) To report to you on the impact and "winnability" of a strike, together with any information he or British Rail have on the mood amongst rail workers, especially just after the result of the steel strike.

again, no powers. Fowler could indicate concern at the prospect of ---

(c) To tell him that there should be no further fare rises in any area of British Rail's operation this year.

(d) To justify a reduction of 11,000 jobs in a work force of nearly a quarter of a million, over 3 years and relate it to natural wastage. Is this a gross reduction over and above natural wastage or a net reduction (which probably means an increase)?

(e) To report to you on the staff shortage situation. Apparently Weighell has been saying that there is a staff shortage of 12,000 (how distributed geographically and by grade?) and that this shows that pay scales are too low. Is there a staff shortage against what is really needed to operate the railways, or simply against an over-manned staffing level?

3. LESSONS FOR THE FUTURE

3.1 The similarity of this situation to British Steel, as a fait accompli with virtually no warning to you or other colleagues, and no preliminary thinking by officials, shows the danger of the arm's length relationship with nationalised industries. On 20 September 1979, E Committee decided "that the nationalised industry chairmen should be asked to ensure that sponsoring Departments were consulted before commitments were entered into in any major pay negotiations". The missing link is that no consultations are required between the Ministers concerned and their Cabinet colleagues. We have to get the rules right for the next pay round and that means close involvement in preparing negotiating positions with nationalised industry chairmen and contingency thinking about when and where we should be prepared to face strikes.

3.2 In the present round, the Post Office is next in line and we should have an early meeting of the appropriate people on that so that it, too, does not bolt before we can close the door.

JOHN HOSKYNS

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