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3001

PREM 19/2391

PART 10

SECRET

Confidential Filing

Future of the Post Office and
British Telecom.

POST AND
TELECOMMUNIC.

Mercury Communications.

Pt 1: May 1979

TELECOMMUNICATIONS POLICY

Pt 10: August 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
1.8.85		17.6.86		20.5.87			
12.8.85		27.86		24.5.87			
24.8.85		11.7.86		18.9.87			
3.9.85		19.7.86		18.9.87			
4.9.85		30.7.86		X PART ENDS			
30.10.85		1.8.86					
13.11.85		29.8.86					
25.11.85		8.9.86					
21.1.86		11.9.86					
14.2.86		25.11.86					
19.2.86		10.12.86					
26.2.86		17.12.86					
28.2.86		19.12.86					
14.3.86		22.12.86					
25.3.86		6.1.87					
27.3.86		13.1.87					
4.4.86		9.1.87					
25.4.86		15.1.87					
13.5.86		16.1.87					
15.5.86		22.1.87					
19.5.86		26.1.87					
21.5.86		16.1.87					
3.6.86		16.2.87					
4.6.86		1.4.87					
16.6.86		28.4.87					

PREM 19/23911

PART 10 ends:-

DRN TO HMT 18.9.47

PART 11 begins:-

HMT TO DRN 5.10.47



File

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 September, 1987.

MERCURY

The Prime Minister would be interested to know what use the Government makes of the services offered by Mercury, and how great the advantages are in doing this. I should be grateful for a note.

I am sending a copy of this letter to Tim Walker (Department of Trade and Industry).

(David Norgrove)

Mrs. Cathy Ryding,
HM Treasury.

hs

PERSONAL AND CONFIDENTIAL

SUBJECT
CC MASTER

NOTE FOR THE RECORD

cc Professor Griffiths

CHAIRMAN OF BT

Lord Young at a bilateral today mentioned that BT plan to announce tomorrow the appointment of Ian Vallance as the new Chairman of BT in succession to George Jefferson.

The Prime Minister expressed considerable disquiet at this but was assured by Lord Young that it was not unwelcome to have the prospect of a more amenable Chairman in the short term. It would also not be possible for the Government to intervene under the terms of the assurances which had been given. The Prime Minister was not convinced that the assurances would in fact prevent Government intervention, but accepted Lord Young's judgement.

DW

DN

8 September 1987

PERSONAL AND CONFIDENTIAL

PERSONAL



WCA

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

21 May 1987

Nigel L Wicks Esq
Principal Private Secretary
10 Downing Street
LONDON
SW1A 2AA

Prime Minister

*To be forwarded to Mr Best
his applications were, I think (but
am not sure), in his own
name of variants of it. But
nevertheless, an extraordinary*

Dear Nigel

KEITH BEST: MULTIPLE APPLICATIONS IN DIFFERENT NAMES FOR NEW
ISSUES *letter* N.L.U. 21.5 *not*

... The attached correspondence from Keith Best in 1985 has recently
been drawn to our attention. The Chancellor thought that the Prime
Minister would want to be aware of what is - in the circumstances -
an extraordinary letter.

After taking legal advice, we have sent copies of the
correspondence to the Crown Prosecution Service. Although it is
almost certainly not relevant to the current case, and so would not
be used or published, we need to be careful to avoid any suggestion
that we have withheld evidence.

*Yours
Alex.*

A C S ALLAN



HOUSE OF COMMONS
LONDON SW1A 0AA

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

81 28th August 1985

HM TREASURY - MCU	
REC'D.	30 AUG 1985
ACTION	HFI
	ca
	EST
	75357

Dear Nigel

Multiple applications in different names for new issues.

Having just spoken to a stockbroker I understand there is still widespread abuse through multiple applications by individuals who submit applications in different names and then pay the returned cheques into their own account, even though these are marked Not Negotiable. Of course, this should not be the case but I understand that many bank managers with certain individuals will allow them to pay Not Negotiable cheques into their account notwithstanding that they are made payable to another or fictitious name. It seems to me that if the banks were made responsible then this sort of activity could be discouraged if not eliminated. I should be grateful for your comments.

Yours ever

Keith



Treasury Chambers, Parliament Street, W. 1P 3JH

Keith Best Esq TD MP
House of Commons
LONDON SW1A 0AA

4th October 1985

Dear Keith,

MULTIPLE APPLICATIONS IN DIFFERENT NAMES FOR NEW ISSUES

I am sorry you have not had a reply before now to your letter of 28 August to Nigel Lawson, about the payment of returned cheques made out in a variety of names into their own bank accounts by individuals who have submitted multiple applications for new share issues.

Your first point was that banks should only allow "non-negotiable" cheques to be paid into the account of the named payee. I am afraid it is not the purpose of the "non-negotiable" crossing on a cheque to make it non-transferable; it simply means that the title of any holder of that cheque is no better than that of a previous holder. This protects the bank against a claim in respect of the cheque if the person to whom it is transferred has it returned. Provided that the cheque is endorsed by the name of the payee, it may be paid into the bank account of the third party.

The decision on whether or not a cheque should be transferable is one for the drawer. When dealing with a cheque the bank can only act in accordance with the drawers instructions. It would not be appropriate to extend their responsibilities in this area beyond that duty.

Yours ever

Ian

IAN STEWART

COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street, SW1P 3AG

Jon Shortridge Esq
Private Secretary to
The Rt Hon Nicholas Edwards
Secretary of State
Welsh Office
Gwydyr House
Whitehall
LONDON SW1A 2ER

20 May 1987

Dear Jon

MERCURY COMMUNICATIONS

My Minister's minute of 28 April to the Prime Minister considered the telecommunications problems experienced over the past eight months by the Welsh Office and other Government Departments located in Wales. Your Secretary of State commented on 1 May, as did Mr Pattie on 14 May.

As you know, my Minister met Sir Eric Sharp, Chairman of Cable & Wireless, on 28 April. Sir Eric was most concerned to learn of the problems. He has now given instructions that he is to be informed personally of any deviation from a high quality service to the Welsh Office that is likely to cause customer dissatisfaction. At official level, CCTA have had further detailed discussions with Mercury.

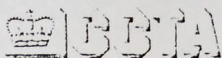
Taking your Secretary of State's comments on the wider issues into account, my Minister has decided to continue to use Mercury's circuits for a further trial period. I attach a letter from Paul Freeman (Director of CCTA) to Sir Eric, informing him of the Minister's decision.

CCTA will continue to monitor closely the reliability of our links to Wales, and endeavour to improve the overall telecommunications service to Government Departments located there.

I am copying this letter to Andy Bearpark (No 10) and Tim Abraham (Mr Pattie's office).

Yours
Simon

S P JUDGE
Private Secretary



Central Computer and
Telecommunications Agency

H M Treasury
Riverwalk House, 157/161 Millbank
London SW1P 4RT
Direct line 01-217) 3300
GTN 217)

from the Director

Sir Eric Sharp, CBE
Chairman and Chief Executive
Cable and Wireless plc
Mercury House
Theobalds Road
LONDON WC1X 8RX

May 1987

Thank you for your letter of 29 April 1987. I apologise for delaying the reply until we had explored a number of important issues with Gordon Owen and his colleagues at Mercury Communications.

As I am sure you know, those discussions resulted in assurances of an improvement in the reliability of the circuits which form a critical part of our telecommunications service to Wales. In the light of these, we intend to continue our contract with Mercury for the supply of circuits from London to Cardiff and Birmingham to Cardiff. We will of course be paying special attention to the availability figures for these circuits over the next six months. The Minister of State has endorsed this decision.

I am also pleased that the discussions have led to a promise of a dialogue on strategic issues between Roy Dibble and his staff here and his counterparts in Mercury. I have no doubt that this will lead to closer links between our two organisations.

P I FREEMAN
Director, CCTA

nbpm



TO:

PRIME MINISTER

FROM:

GEOFFREY PATTIE

14 May 1987

1 The minutes to you from Peter Brooke and Nicholas Edwards about the CCTA's GTN link to South Wales were copied to me.

2 I wish to endorse the point Nicholas Edwards made about the wider implications and, like him, trust that there can be further negotiations with Mercury before any decisions are taken about going back to BT.

3 I am copying this minute to Nicholas Edwards and Peter Brooke.

A handwritten signature in blue ink, appearing to be 'G. Pattie', with a horizontal line underneath.

GEOFFREY PATTIE



Prime Minister²

As Brooke is aware of this;
and will not take any precipitate action

COMMERCIAL IN CONFIDENCE

ms
2/5

PRIME MINISTER

Peter Brooke copied to me his minute to you of 28 April about the CCTA's negotiations with Mercury about the CTN link to South Wales.

He indicated to you that CCTA were far from happy with the service they were getting from Mercury and cited complaints they had received from the Welsh Office as grounds for terminating their agreement with Mercury on the South Wales link.

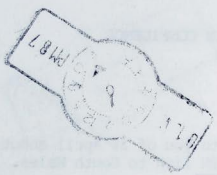
I am most unhappy about this. There is no doubt that there have been problems with the CTN link between Cardiff and London during the last year or so, but the situation is more complex than Peter's minute appears to allow. The fact is that Mercury and its link to South Wales have an importance which considerably outweighs that of simply supplying a telephone service to my office. There are other Government departments who use it and there are commercial implications to the anticipated provision of a permanent Mercury land line to South Wales which should be given weight in any negotiation with them. I also feel that a single complaint from my Department (which was made by my officials to their official colleagues in CCTA without consulting me) ought not to be used as grounds for terminating an agreement with Mercury before they have been given every opportunity to respond to the complaint concerned.

Although therefore the contract with Mercury is primarily a matter for CCTA and not directly for me, I would certainly hope that Peter and I could discuss this matter further and that further negotiations should take place with Mercury before any decision is taken.

/ I am copying this minute to Peter Brooke and Geoffrey Pattie.

✓
R N E

Handwritten notes at the top of the page, including "1887" and other illegible scribbles.



Main body of the document containing several paragraphs of text, which is extremely faint and mostly illegible. The text appears to be a formal report or letter.



100
COMMERCIAL IN CONFIDENCE

Prime Minister²



FROM: Minister of State

DATE: 28 April 1987

PRIME MINISTER

The Chancellor and I think that you should know about a small but potentially awkward problem we are having with Mercury Communications, which they may raise with you or mention to the press.

CCTA have recounted the long history of faults that they have been experiencing with Mercury Communications' circuits on the Government Telecommunications Network (GTN). Despite written warnings earlier in the year of the consequences of the poor quality service, Mercury have been unable or unwilling to provide the level of quality required for a telecommunications link of this type. The major problems have occurred on the links to Wales, where network users have experienced a poor service. This has resulted in a written complaint from the Welsh Office, which I cannot ignore.

In order to improve the quality of service to Welsh users, I am at present intending to authorise CCTA to transfer the rental contract for the circuits between London and Cardiff, and Birmingham and Cardiff, from Mercury to British Telecom. Keith Joseph has fortuitously asked to bring Sir Eric Sharp, the Chairman of Cable & Wireless (Mercury's parent) to meet me this afternoon. I therefore propose to inform them of dissatisfaction with the reliability of these circuits and our intention to transfer the order from them to BT.

My officials have confirmed that the problem is confined to this particular circuit and that there is no intention of preventing Mercury from gaining other business within this area of work. Indeed I understand that the company has obtained orders for a number of other circuits covering other routes.

I am copying this minute to Nicholas Edwards and Geoffrey Pattie.

P.B.

PETER BROOKE

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

BRITISH TELECOM SHARE DEALINGS

While you were away a publication called "Labour Research", which is supported by Trades Unions, carried an investigation of the BT share register. This drew attention to a number of cases where MPs had bought BT shares. Two are difficult, and have attracted Labour comment (Ann Clwyd, Skinner, etc.).

The first is Keith Best. He seems to have applied for BT shares in six different versions of his name (Keith Best, K. Best, K.L. Best, etc) from a variety of addresses. He has said ^{privately} he will resign his seat. The Chief Whip has told him not to do so, but to take legal advice about what he has done and then to come to see him (the Chief Whip) again. (He has, however, issued a statement saying that he was not aware at any stage that he was breaking the law.)

Eric Cockeram is the other. He appears to have made two applications. He says he was sent one application as a telephone subscriber at his London address and another as a telephone subscriber at his country address. He saw no reason why he should not fill in both. He seems to be showing no inclination to resign at present, but the Chief Whip has given him the same advice as he gave to Keith Best.

DTI have told the Chief Whip that prosecutions of either MP are most unlikely. (The Fraud Squad have however now said they are investigating.)

John Moore is reported as owning one share in BT. It seems that he has bought a symbolic single share in a series of privatisations on behalf of his son.

DN

ms

David Norgrove

1 April 1987

PERSONAL AND CONFIDENTIAL

SECRET

21



Treasury Chambers, Parliament Street, SW1P 3AG
The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

27th February 1987

Dev Paul,

NBRN.

NATIONAL GIROBANK: 1986 BUSINESS PLAN

Following our meeting on Wednesday, I am now able to reply to your letter of 22 December and the paper on Girobank's Business Plan which you enclosed. I know you agree that the paper raises some questions which deserve careful consideration, and our discussion was therefore most useful.

The agreed objective is clear enough. Girobank needs to be run:

- prudently;
- efficiently and within planned EFLs;
- in a way which will not obstruct options for Girobank's future in the medium term which may be considered later.

The question is whether the proposed capital injection in two tranches of £10 million is the right means to this end.

Without any doubt Girobank faces an increasingly competitive market with no shortage of alternative suppliers of the service which Girobank sells or hopes to sell. I accept that Girobank's systems need to be modernised and adequately backed up for contingencies; that if it can introduce profitable new products it will help to safeguard its future profitability; and that retrenchment would pose Girobank some difficult management problems and also affect PO Counters. But there are important arguments the other way too: new products (notably lending to small and medium corporate borrowers, a difficult and already well-provided market in which Girobank lacks proven management capacity) bring new risks; is it wise to put new systems in place now which may not be compatible with other systems in the

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POST + TELECOM
WIRE of PO
PT 10

future ?; and Girobank's medium-term future will surely depend more on its special characteristics than on its precise profits/balance sheet growth. Moreover Girobank has some scope to introduce selected new products without a capital injection, by doing rather less of other business such as local authority lending (indeed Girobank appears recently to have lowered its sights in that area quite substantially).

We discussed all these matters and in the light of that discussion, on balance, I am prepared under the circumstances to accept your judgement that Girobank needs some room for manoeuvre and that its new management will implement their planned expansion prudently. I understand that Mr Williamson is well aware that the new entrant's share of highly competitive markets may be tail-end unprofitable business and is confident that Girobank can avoid this pitfall. Close scrutiny will be necessary, as Girobank's management (even with imported personnel) will face a challenging time ahead.

In agreeing that the Post Office should provide the proposed capital injection of £10 million in April 1987 and £10 million in April 1988, in the form discussed between officials and without any EPL adjustments, I should like to make three specific points.

First, it is clearly desirable that Girobank's progress should be re-assessed in depth at an early date, certainly within 12 - 18 months.

Second, we should, I think, spell out that the capital injection is agreed in the clear expectation that Girobank's management will aim consistently to keep their prudential ratios at or above the Bank of England's preferred levels - currently 11 per cent for the risk asset ratio. I should also clarify the question of exceptional treatment from some of the Bank of England's usual supervisory criteria, which is mentioned in paragraph 13 of the paper. Whether the Bank of England would agree to exceptional treatment is a matter for the Bank, but exceptions should not be justified on the argument that the taxpayer will pick up Girobank's losses. Ultimately that argument is a blank cheque for piling up unsupervised banking risks upon the Exchequer: exceptions on that basis could also be an awkward medium-term complication.

Finally, it is also important that the new long-term contract with PO Counters (paragraph 4 of Annex A of the paper) should not hinder Girobank's medium-term possibilities.

I believe that all these points are consistent with your own views and, on that basis, I am content for Girobank to proceed.

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

Yours,
JH



JOHN MacGREGOR



PS/ Secretary of State for Trade and Industry

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

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

CFPPS *apc* *(2)*

16 February 1987

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

Prime Minister
His advice remains
that it is still
not the right
time for you
to intervene
COP1072

Dear David,

ms
not PDP

CABLE & WIRELESS/JAPAN

Tim Abraham wrote to you on 9 January about C&W's bid to be involved in a rival telecommunications consortium to the existing Japanese monopoly KDD. This followed a meeting between the Prime Minister and Sir Keith Joseph when the issue was raised. We promised to keep you in touch with developments and to advise further, when support from the Prime Minister might best be timed.

As Tim indicated in his letter, officials here and our Embassy in Tokyo have maintained pressure on the Japanese Government to

- i) ensure that no premature decision was taken on the issue before IDC, C&W's consortium, put in its application.
- ii) counter any comments from Japanese officials of the Ministry of Posts and Telecommunications (MPT) about the undesirability of foreign participation in a telecommunications operation.

My Secretary of State and Mr Clark have pursued these points at all suitable occasions and we have received helpful assurances from various sections of the Japanese Government that there will be no rushed decision, and that the decision will be taken by the Japanese Government, not the overtly nationalistic Ministry of Posts and Telecommunications. My Secretary of State has also written this week to Mr Karasawa, Minister of Posts and

JGLARH



Telecommunications, welcoming a recent statement to Patrick Jenkin that foreign companies would not be prevented from participating in international telecommunications business. Mr Channon's letter also restates HMG's interest in the issue and underlines the expertise C&W possess in this field.

This letter was agreed with C&W, and officials here are keeping in close touch with the Company. But, partly as a result of the fast changing situation, C&W are finding it difficult to offer DTI consistent advice on when they would see an intervention by the Prime Minister as most helpful. In the last week, officials have received three conflicting pieces of advice from the company on the level of support most appropriate in their view. This has resulted, finally, in the agreed letter from my Secretary of State to Karasawa.

The current position is highly complex and fast changing, and for these reasons, our view remains that there should be no intervention by the Prime Minister as yet. Neither the ITJ (the all Japanese consortium) nor IDC (the consortium in which C&W is a 20% shareholder) has yet submitted an application for a licence to operate international telecommunications services. We understand this may be due to clear signals from the Japanese Ministry of Posts and Telecommunications that they would not welcome two separate applications. MPT would clearly prefer a merger of the two consortia, but, whilst talks are taking place between IDC and ITJ, it is by no means certain whether these will reach a satisfactory outcome.

The position may become clearer if an IDC shareholders meeting planned for 18 February takes place and we shall advise further as necessary. But in the meantime, we and the FCO advise that the Prime Minister should not yet intervene formally.

I am copying this letter to Robert Culshaw (FCO and Tony Kuczynski (Treasury)).

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Carolyn Akers', written over a horizontal line.

CAROLYNE AKERS
Private Secretary

JG1ARH



POST + TELE: Future at 10

I am copying this letter to Robert Calver (PO) and Tony Kearsy (Secretary).

The position may become clearer if an IDC shareholder meeting is planned for 18 February next year and we shall advise further as necessary. But in the meantime, we had the POC advise that the British Telecom should not get involved further.

The current position is highly complex and fast changing, and for these reasons, the view remains that there should be no intervention by the Prime Minister or any other body in which BT is a shareholder. BT has submitted an application for a licence to operate international telecommunications services. We understand this may be due to clear signals from the Japanese Ministry of Posts and Telecommunications that they would not welcome two separate applications. BT would clearly prefer a merger of the two companies, but, while talks are taking place between IDC and BT, it is by no means certain whether there will reach a satisfactory outcome.

This letter was agreed with GAW, and officials here are keeping in close touch with the Company. But partly as a result of the changing situation, we are finding it difficult to give BT a definite answer at this time and we are in discussion with the Prime Minister on what might be done. In the last week officials have received three conflicting pieces of advice from the company on the level of support most appropriate in their view. This has resulted, finally, in the agreed letter from the Secretary of State to Kearsy.



DEPARTMENT OF TRADE AND INDUSTRY
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PS/ Secretary of State for Trade and Industry

RESTRICTED

16 January 1987

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

NRBM

Dear David,

at last.
TELECOMMUNICATION POLICY

My Secretary of State has seen Brian Unwin's minute to the Prime Minister of 10 December and his reply of 12 January to your letter of 17 December. He has also seen the comments from the Secretary of State for Education and Science, the Home Secretary and the Chief Secretary.

Like them, Mr Channon supports Brian Unwin's proposal for a consultation document on Recommendation 15 of the Peacock Report. The Recommendation has important implications both for the Government's current policy and for future developments in a key sector. He believes it is most important that we seek the views of those involved.

Similarly, he supports Brian Unwin's proposal for two consultants' reports and a Steering Group to carry out a broader study of possible developments in this field. The technical and commercial expertise which can be provided by a specialized outside agency would be of considerable help both in formulating policy and in providing an authoritative basis for the commercial interests who will be affected.

I am copying this letter to the Private Secretaries to other members of E(TP), Trevor Woolley in Sir Robert Armstrong's office, John Fairclough and Brian Unwin.

*Yours sincerely,
Nicola Parkins*

NICOLA PARKINS
Assistant Private Secretary

JF4AMM

Post + TELECOM: Entered post
#10.

DEPARTMENT OF TRADE AND INDUSTRY
115 VICTORIA STREET
LONDON SW1H 0BT



15 Downing Street
London
W1A 2AA

Handwritten scribble or signature.

Handwritten scribble or signature.

Handwritten scribble or signature.

TELECOMMUNICATIONS POLICY

My Secretary of State has seen Brian Lewis's report to the Prime Minister of 18 December and his reply of 15 January 1984. I have also seen the comments from the Secretary of State for Education and Science, the Home Secretary and the Chief Secretary.

Like them, Mr. Cresswell supports Brian Lewis's proposal for a consultation document on communication in the context of the report. The communication has important implications both for the Government's current policy and for future developments in a key sector. He believes it is most important that we reach the views of those involved.

Similarly, he supports Brian Lewis's proposal for two consultation documents and a steering group to carry out research and to provide possible developments in this field. The technical and commercial expertise which can be provided by a specialist outside agency would be of considerable help both in formulating policy and in providing an authoritative basis for the commercial forecasts which will be affected.

I am copying this letter to the Private Secretary to the Secretary of State.

LPO
FCO
CS, HMT
HO
DES
DTI



10 DOWNING STREET
LONDON SW1A 2AA

file Mj
cc BG

From the Private Secretary

MR UNWIN
CABINET OFFICE

TELECOMMUNICATIONS POLICY

The Prime Minister was grateful for your minute to me of 12 January which explained in greater detail the reasons for the proposed studies by consultants on telecommunications, and for the proposed steering group.

The Prime Minister is now content, subject to the views of colleagues, that the studies should go ahead, that the steering group should be established and that, once the text has been cleared by Ministers, a consultative document should be issued on Peacock recommendation 15.

I am copying this letter to the Private Secretaries to members of E(TP) and to Trevor Woolley and John Fairclough (Cabinet Office).

DW

David Norgrove
15 January 1987

88



✓
c BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 January 1987

Cable & Wireless

The Prime minister was grateful for the information about progress on the Cable & Wireless telecommunications contract in Japan set out in your letter to me of 9 January. She has noted the advice that she should not intervene at this stage. No doubt you will keep the Prime Minister in touch with any further developments.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office) and Tony Kuczys (HM Treasury).

(DAVID NORRGROVE)

Tim Abrahams, Esq.,
Department of Trade and Industry.

DSG

CGF



RESTRICTED

P 02435

From: J B UNWIN
12 January 1987

Prime Minister

MR NORRGROVE

Agree the recommendation
in para 11?

TELECOMMUNICATIONS POLICY

at-trap

DHS
14/1

mb

Your letter of 17 December conveyed the Prime Minister's request for further information on the recommendations from MISC 131 (the Official Group supporting E(TP)) for commissioning consultancy studies and setting up a steering group of outside experts to supervise them.

The Consultancy Studies

2. E(TP)'s remit, "to consider the possible development of the UK electronic communications infrastructure and the economic, industrial, social and international consequences of possible models", provides a challenging task. The relevant technologies and economic assumptions are highly complicated. They are also subject to very rapid changes. But an informed consideration of possible future scenarios in some depth is essential if the Government's policy is to be developed on a sound basis.

3. The Official Group under my Chairmanship discussed in detail the most practicable and worthwhile way of taking this forward. Our strong recommendation is that a clearly defined and targetted study is likely to provide the best guide for informed consideration of future policy. That study would identify and analyse scenarios for the development of the communications infrastructure over the next two decades. It would do this both by taking into account the foreseeable costs of providing the new and enhanced services the various scenarios would permit to be delivered and by assessing these against the level of likely market requirements. The scenarios would need to take into account the plans and capabilities of the existing main players, the public telecommuni-

RESTRICTED

cations operators and the cable TV operators and their motivations and policies. Great emphasis would need to be given to commercial imperatives at each major decision point.

4. For such an exercise to be worthwhile, it must be performed by people having enough all-round technical, industrial and hard-headed commercial credibility and resources to complete it within an acceptable timescale. Their output must also be authoritative enough to be taken as a serious starting point by the many different commercial interests it is likely to affect. We do not believe that within an acceptable time-span such a range of skills, especially on the commercial side, is available within Government. Only a limited number of top commercial consultancies are equipped for the job.

5. We also envisage that, in addition to this scenarios report, at a later stage a second report on the advanced terminal equipment needed to utilise the infrastructure development should also be commissioned. This would help ensure that the full potential of a future communications network is exploited and R&D support, both on the domestic and European fronts, is targetted to best effect. This area again requires technical and commercial expertise for informed decision-making.

The Outside Expert Steering Group

6. We also think it desirable for the DTI to set up a small Steering Group including outside experts to monitor and guide the development of the work. DTI envisage a group of five or six people under their chairmanship. It would include the Chief Scientific Adviser, John Fairclough and Professor Bryan Carsberg, the Director General of Telecommunications. Other members presently envisaged (subject to availability) are Mr Ivor Cohen, Managing Director of Mullard, Mr John Alvey, formerly Technical and Procurement Director of BT and Professor Metcalfe of Manchester University. The Prime Minister may recall that Mr Cohen was actively involved, as one of the Prime Minister's IT Advisory Panel, in cable system policy formation.

7. The Group would have three main roles:

(i) to help advise on the choice of the consultants;

(ii) to monitor their work (regular interim reports from the consultants would be required);

(iii) to help in the critical assessment of the implications of the scenarios and what they would mean in terms of future policy choices and opportunities.

8. There is one further role we envisage for the Steering Group. In my minute of 10 December to the Prime Minister I also referred to the MISC 131 recommendation for a consultative document on Peacock Recommendation 15, which the Home and Education Secretaries and the Chief Secretary have now endorsed. *about common carriers*
The responses to this would themselves help to illuminate the plans and motivations of the main commercial operators in this area. The Steering Group's assessment of these should help to provide a useful check on the scenarios the consultancy study would be generating and help ensure these stay firmly on the rails.

Timing and Costs

9. The consultants would be chosen by competitive tender from:

Pactel
Logica
Cambridge Consultants
Ewbank Preece
General Technology Systems

all of whom are considered to have sufficient expertise to feature on the short list. In advance of the selection process a firm costs figure cannot be given but bearing in mind that two studies of 6 to 12 months in monitored stages are proposed an overall cost of £200,000 is envisaged, which the DTI would meet from within

their existing provision. (The Steering Group members would be expected to participate on an honorary basis).

Conclusion

10. Electronics communications has major industrial and commercial implications. For a competitive and adaptable network to be available in the 1990s and beyond, the Government will need expert technical and industrial advice on possible trends and future requirements before taking firm views on the future policies on infrastructure. Whilst some of this expertise is available in-house, the Official Group consider it very desirable to seek more wide ranging and detailed advice from external experts, close to the attitudes and views of industry and the City.


11. I therefore recommend that:

(i) DTI be invited to commission the two studies from consultants on the basis above;

(ii) DTI also be invited to establish the Small Steering Group proposed under their Chairmanship;

(iii) that, subject to clearance of the text by Ministers, a consultative document be issue on the Peacock Recommendation 15, as outlined in my previous note of 10 December.

12. I am copying this note to members of E(TP) and to Sir Robert Armstrong and Mr John Fairclough.


J B UNWIN

Cabinet Office



From the Minister of State
for Industry and Information Technology

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

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GTN 215 5147

(Switchboard) 01-215 7877

GEOFFREY PATTIE MP

David Norgrove Esq
Private Secretary to
Prime Minister
10 Downing Street
London SW1

Prime Minister 2

This recommends that you should
not intervene with the Japanese yet.
(The consortium which includes
Cable and Wireless has not yet decided
whether to apply formally for a licence.)

9 January 1987

DW
12/1

Dear David,

CABLE AND WIRELESS

In your letter of 19 December you reported on a meeting between the Prime Minister and Sir Keith Joseph, at which the interest of Cable & Wireless in securing a position in Japanese telecommunications contract was discussed. At that meeting it was agreed that C&W should prepare a paper setting out options for Government intervention on behalf of IDC, the consortium of which C&W is part. You also requested a progress report on the competition and early warning of when a decision might be taken in case the Prime Minister needed to intervene in support.

As you know, the Japanese Government is in the process of liberalising their telecommunications network and have invited bids in order to establish competition in international telecommunications services to KDD, the existing Japanese operator. Two consortia are likely to submit proposals this month; ITJ, an all-Japanese consortium, and IDC, a consortium which includes C.Itoh, C&W at 20%, Pacific Telesis, and Merrill Lynch. As Sir Keith indicated, following expressions of support from the Prime Minister and Sir Geoffrey Howe earlier last year, Mr Channon pressed the case for the IDC consortium including C&W, when he visited Japan last November, but received a warning from Mr Kurasawa of the Japanese Ministry of Posts and Telecommunications (MPT) that the Ministry did not favour foreign participation in the rival telecommunications consortium and doubted that there was sufficient demand for both ITJ & IDC to be awarded licences.

DE7/DE7ACT



Since then we have continued to keep up the pressure. Following a meeting between Sir Eric Sharp and Mr Channon, Sir John Whitehead personally delivered an aide memoire to the MPT on 24 December which emphasised HMG's support for C&W participation in any licensed rival to KDD on a scale compatible with Japanese law (as in the IDC consortium). Reference was also made to the imbalance of trade between Japan and the UK and the need for Japan not to take a restrictive view in this matter.

The position is still uncertain, since we understand that neither consortium has yet submitted a formal proposal. The MPT appear to favour a merger of the two, but there are important differences between their commercial approach and neither C&W nor Pacific Telesis will readily accept a reduced role. Officials from this Department met the President of IDC and a representative from C&W earlier this week to review the position. IDC are carrying out an assessment of demand which will be completed later this month, following which a final decision will be taken on whether to put in a formal request for a licence. ITJ are expected to submit their formal request by the middle of this month.

Cable & Wireless have now submitted their paper on possible forms of HMG support for their bid - a copy of which went to Professor Griffiths. In it they recommend that the Prime Minister

- i) makes a statement to the House
- ii) covers the issue in any suitable private or public engagements
- iii) makes more general robust public comments about Japan & trade imbalance
- iv) raises the C&W bid and HMG's support at any meetings with Japanese dignitaries.

Following consultation with the Embassy in Tokyo, the IDC consortium and C&W, we recommend that the Prime Minister should not yet intervene, but that this be considered again later to coincide with any formal bid IDC put in. Government intervention at this level would not be appropriate in advance of IDC's firm commercial decision to proceed with a request for a licence. Cable & Wireless are content with this approach. In the meantime, our Embassy in Tokyo are continuing to seek to ensure that no decision is taken until IDC have had the opportunity to register their interest formally. Ministers here will also continue to take opportunities to restate HMG's interest.

DE7/DE7ACT



We shall keep you informed of developments.

I am copying this letter to Robert Culshaw (FCO) and Tony Kuczys (Treasury).

Yours, *Tim*
T P ABRAHAM
PRIVATE SECRETARY

conqueror



DE7/DE7ACT

Past & Telecom: Future: PTIO.



It will keep you informed of developments in the field of telecommunications. For more information, contact the National Telecommunications and Information Administration, Washington, D.C. 20535.

U.S. DEPARTMENT OF COMMERCE
NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION



10 DOWNING STREET

DRN,

Re your note on SS/DTI to
CST 22.12.86 (at Hep) on
National Girobank.

CST's office say they hope
to reply early next week.
Contact to BF for Monday?

No need to chase.

Do you wish me to chase
comments from anyone else?

No.

G:4
9/1

RESTRICTED

CSG

FROM: CHIEF SECRETARY
DATE: 8 January 1987*NBPT at this stage*

PRIME MINISTER

TELECOMMUNICATIONS POLICY

I have seen Brian Unwin's minute to you of 10 December on this subject and also the comments by Kenneth Baker and Douglas Hurd. Like them I would support the proposal that the Government issue a consultation document on recommendation 15 of the Peacock Committee Report and that the official Group should prepare a draft. I would hope it would be positive in tone.

at 11ap

2 I am copying this minute to members of E(TP) and to Sir Robert Armstrong, Brian Unwin and John Fairclough.

jm

JOHN MacGREGOR

POST #TG6G: Future PT10



COMMUNICATIONS POLICY

I have been asked to review the draft of the proposed subject and also the comments by Kenneth Baker and Douglas like that I would support the proposal that the Government a consultation document on communication is a Leacock Committee Report and that the official Group prepares a draft. I would hope it would be possible in some

I am copying this minute to members of EITV. Mr Robert Armstrong, Brian Owen and John Parkinson.

RESTRICTED



cc/ps
NGPN at this stage

Prime Minister

TELECOMMUNICATIONS POLICY

I have received a copy of Mr Unwin's minute of 10 December to you containing recommendations from the Official Group on telecommunications policy. *at Day*

I fully support the proposal that the Government should issue a consultation document on recommendation 15 of the Peacock Committee report. Although this recommendation has important implications for broadcasting policy so that my Department will obviously need to be involved in the development of the text, I am clear that the matter is best taken forward through a consultation document which can examine the general implications for telecommunications policy.

I have no comments on the other proposals made by the Official Group.

I am copying this to members of E(TP) and to Sir Robert Armstrong, Mr Unwin and Mr Fairclough.

Douglas Hurd

6 January 1987

RESTRICTED



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20

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Secretary of State for Trade and Industry

SECRET

22 December 1986

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

Ancient comment
Bjt 8/11 12
2

Dear Chief Secretary

NATIONAL GIROBANK : 1986 BUSINESS PLAN

Following my letter of 13 May to Nigel Lawson we agreed to look again at the position on Girobank after the General Election. Against that background we need to take a view on how we wish the business to develop in the interim. We have proposals from NGB in its 1986 Business Plan.

I enclose a paper prepared by my officials in consultation with yours. The Bank of England have also been consulted and agree with the paper's main recommendation. I endorse the paper's recommendations and, subject to any views that you and other colleagues may have, I propose to write accordingly to Sir Ronald Dearing as soon as possible in the New Year.

The officials' paper focuses in particular on the proposed capital injection by the Post Office of £20 million, taking into account developments since the Plan was prepared. The main thrust of the Plan is that in order to continue to prosper (and thereby maintain or, preferably, enhance its saleability), NGB needs to build on the relatively limited base that it has established to date and compete effectively in the highly competitive and rapidly developing market for financial services. It needs to offer a more complete range of services and it needs the skills, equipment and systems to support such development. But there is a price to pay. Girobank must have sufficient capital to develop prudently with an adequate margin of security and the Plan proposes a capital injection of £20 million.

JF5BOP

17
1986
BOARD OF TRADE
BICENTENARY



SECRET

As explained in the paper, developments since the Plan was prepared, for example the IFR outcome and the Bank of England's continuing work on strengthening the prudential supervision of banks, have reinforced this need. Fortunately our officials have confirmed that the capital injection would have no EFL effect and would consequently be neutral as far as the PSBR is concerned. The cost of ensuring that Girobank has a more adequate capital base will not therefore fall on public funds.

I agree with Girobank management that we need to give the bank the freedom and the resources to develop its business prudently in an increasingly competitive market. This applies while it remains in public ownership, but still more when we view it as a candidate for privatisation whose value we must maintain. We shall of course have the opportunity to review progress in the light of next year's Plan (which is already being prepared).

I should be grateful for your early agreement that we should endorse the recommendations in the attached paper; a response by 9 January would be helpful.

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

*Yours sincerely
Paul Channon*

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

NATIONAL GIROBANK: BUSINESS PLAN 1986**Paper by DTI Officials**

1. This paper has been prepared in the light of discussions with National Girobank (NGB) and the IFR outcome with respect to NGB, and in consultation with Treasury officials. The Bank of England were also consulted and agree with the paper's main recommendation.
2. Attached to this paper are annexes summarising the financial implications of the Plan (Annex A) and describing NGB's development and recent performance (Annex B).

Objectives

3. The Plan states NGB's principal aims as being to provide a nationwide banking service to personal and business customers using post offices as branch outlets, in competition with other banks, and to pursue a policy of profitable growth within the framework of prudential ratios set by the Bank of England. These objectives are compatible with the strategic objectives for the Post Office as a whole which the Secretary of State announced on 21 July.

NGB's current position

4. NGB had a shaky start, but now, building upon its long-standing policy of free banking and use of the extensive Post Office Counters network, it has developed a base of 2m personal current account holders. It has also secured a pre-eminent and profitable niche in corporate banking, by taking in retailers' cash and supplying the Post Office with the cash it needs to make social security and pension payments for the DHSS. But it has weaknesses and needs to make changes if it is to develop and prosper further, so as to enhance its attractiveness as a candidate for early sale. The new Managing Director, appointed in November 1985, has already demonstrated the vigour and imagination to make the necessary changes.
5. Current accounts are of limited commercial value in themselves. Basic money transmission services to personal current account holders are high in cost and low in profitability. The main value of current accounts to other banks is as a basis for offering other services such as saving accounts and lending facilities. NGB needs to develop a wider range of services to its personal customers, in order to retain their custom in an increasingly competitive market, while also realising their profit potential. Without calling upon Counters staff to handle sophisticated financial transactions beyond their competence, the broad customer base - coupled with the centralised and computerised nature of NGB's operations - offers significant potential for both the marketing of new services through mail and telephone and their administration.

6. NGB's corporate deposits business is profitable but narrowly based: it is dependent on a relatively small number of large customers. Moreover the level of profitability is now threatened as, in certain areas, Counters does not require all of the cash that NGB collects. To reduce its vulnerability NGB needs to widen its business base. It needs to offer a wider range of corporate services to a wider range of customers and it needs to get closer to actual and potential corporate customers with its own staff to sell and administer new services.

7. NGB's operating systems, originally introduced to support the basic money transmission service, have been developed piecemeal beyond their original purpose in order to cope with greatly increased volume and banking-type operations. But substantial further development is required to cope adequately with current needs let alone greater volume, and a wider range of banking services, and to provide much needed improvements in management information and control.

Strategies proposed in the Plan

8. The Plan proposes that, in the Plan period, NGB should, inter alia, aim to:

- (i) increase its share of the personal current account market from 5 to 5½ per cent;
- (ii) increase the range of services offered to personal customers and stimulate existing services, where appropriate exploiting the scope for telephone and mail for marketing and administration of services;
- (iii) build upon NGB's strong links with retailers to supply cash to organisations in addition to Counters and shift the emphasis of cash collection from growth to profit;
- (iv) develop small sub-regional sales/credit offices to market and administer increased corporate lending, concentrating on small and medium-sized firms; and
- (v) rectify operational deficiencies, in particular:
 - upgrade NGB's main computer systems and implement CALM (Customer Account Ledgering and Maintenance) by autumn 1987 which will allow efficient charging for new and existing services;
 - improve accounting and management information systems;
 - replace the cheque-handling system at Bootle and develop plans for input and other systems

whose operational lives will come to an end during the Plan period;

- develop adequate contingency arrangements through the replacement of existing operational systems and, in addition, installation of a second computer back-up.

Capital injection (Annex A paragraphs 3-9 and 18-20)

9. The Plan proposes a capital injection of £20m to enable NGB to pursue the chosen strategies with an adequate degree of confidence that its ability to undertake developments that are commercially advantageous (eg offering customers negotiated overdrafts) or necessary (eg replacement of time-expired and unsatisfactory operational systems) is not unduly constrained by an inadequate margin of security against its prudential ratios. Since 1978/79 (leaving aside the capital provided in 1981/82 to offset the effect on NGB of the special bank tax) it has financed growth through retained profits. But this source would permit only modest further growth. It would not allow the development that NGB management consider necessary to help realise the potential of the business (and its saleability). The Bank of England agree that a capital injection is required for NGB to be developed as its management recommends and the Plan proposes. The Plan proposes that the Post Office should provide £20m additional capital to NGB (£10m in April 1987 and £10m in April 1988). A mechanism has been agreed whereby this could be done without any PSBR effect.

Financial implications

10. These are considered in more detail in Annex A, but NGB expects that, if implemented, the Plan strategies will ensure continued profitable expansion while it undertakes, and self-finances, additional capital spending to secure much needed improvement in its operational systems. Without these improvements NGB will continue to struggle to meet existing requirements and will not be able to cope prudently and efficiently with the new, more profitable services it intends to introduce. Table A1 of Annex A gives NGB's latest forecasts of profitability and its position against its prudential ratios in the Plan period. The forecasts, which incorporate the impact of developments since the Plan was prepared - chiefly the IFR outcome - are, however, somewhat artificial. They are based on deliberately cautious estimates by NGB of the additional business that it will secure from new services. If market conditions are favourable, and subject to the systems and other improvements necessary to support new services, NGB is hopeful that additional growth in business volume and profitability is attainable to enable further growth while operating with an adequate margin of safety against its prudential ratios. But conditions in the market for financial services are uncertain and the robustness of NGB's expectations will need to be considered in the light of its 1987 Business Plan.

11. However, the main artificiality relates to the forecasts of prospects without the capital injection. The forecasts in Table A2 or Annex A assume that, with the additional margin of security against its prudential ratios that will flow from the capital injection, NGB will be able to undertake a bigger capital programme (£69m with the capital injection, £65m without). But the forecasts in Table A1 assume the same level of profit with and without the capital injection. This is on the basis that those are the profits necessary to meet the IFR outcome. But the main impact of the £20m injection is on NGB's position against its prudential ratios. As shown in Table A1, NGB forecasts that without the injection the risk assets ratio falls below the Bank of England's formal minimum level of 10 per cent in 1988/89 and below its informal preferred level of 10.5 per cent in 1987/88. The Bank of England would require action to prevent this happening and such action immediately impacts on profits, the prospects of NGB's meeting its EFL/EFrs, and its longer term prospects. To meet these EFL/EFrs it is likely that NGB would need to take short term action, such as premature sale of gilts, that would not be in the longer term interests of the business.

12. The Bank regard a margin of 1 per cent over the trigger ratio of 10 per cent as desirable to provide a comfortable margin of security. Moreover, as noted in Annex A (paragraph 8) NGB's ratio has historically been around 3 per cent higher than most of the major dealers. But their ratios have gone up in response to a marked increase in the risks associated with banking business in the present climate which is reflected in strengthening of the prudential controls operated by the Bank of England, NGB's has not. To some extent it also reflects exposure to international risks that does not apply to NGB.

13. Another aspect of the moves by the Bank of England to strengthen prudential controls is the more restrictive guidelines that they are now developing on large exposures (see Annex A paragraph 4). The nature of NGB's existing profile of commercial customers, with a limited number of large retail customers and local authorities representing a substantial and profitable proportion of overall business volume, means that the policy that the Bank are looking to establish would have a particularly restrictive effect on NGB in the absence of any expansion of its capital base. Even with the capital injection of £20m the new guidelines seem likely to cause problems for NGB unless it can agree a measure of special treatment with the Bank of England. Earlier this year the Bank issued a consultative paper on off-balance sheet risks. Whilst the outcome of this is not yet known it is clear that both in the context of risk weighting and large exposures there will be additional impact on banks' capital ratios.

14. As NGB's commercial lending develops there is a strong argument in favour of creating additional general provision as a cushion against the increased risks involved. This will have to be met by a charge on the profit and loss account along with any specific provisions. The effect of this would be to reduce retained profits and therefore the scope for capital needs to be generated internally.

Alternative options

15. The Plan considers alternative options for the various parts of the business. In general these amount to the different development that would take place with and without a capital injection. Without new capital NGB would be able to introduce only limited new services, forgoing profitable commercial opportunities rather than jeopardise its prudential ratios. Moreover it would operate with little or no margin of security to cope with unexpected developments. The decision not to privatise NGB this side of the next General Election was largely based on industrial relations risks. The Plan seeks to reduce these risks by showing a commitment to growth and to a range of measures that will help reduce NGB's vulnerability in industrial relations and commercial terms. Without additional capital, growth potential will be limited and the measures to reduce vulnerability will be inhibited and in some cases frustrated. The Plan does not consider the option of NGB going backwards and positively reining back its services, and given other decisions about NGB's strategic future this is not an option that merits detailed consideration.

Other issues

16. Financial target NGB has been set a financial target of securing an annual average return on a historical cost basis of 22 per cent on mean net assets (before interest) for the years 1985/86 to 1987/88. It was agreed that it would be subject to review after the first year of its operation. That review should now be undertaken and should also look at the possibility of a performance aim being set for NGB.

17. Dividends on public dividend capital (PDC) It has long been the general policy that where publicly-owned bodies have received PDC the Government should, over a period of years, expect to receive dividends at least equivalent to the interest that would be payable on an equivalent sum advanced from the National Loans Fund. But there has been uncertainty about how this should apply to the PDC advanced to the Post Office in respect of its banking services. It is proposed that officials should, with the Treasury and NGB, review this question in consultation with the Bank of England.

Recommendations

18. It is recommended that:

- (i) Broad approval should be given to the NGB 1986 Business Plan and in particular its proposal for a £20m capital injection;
- (ii) that approval should be subject to the requirement that NGB consult DTI before introducing major new services;

- (iii) Approval should be given to a capital programme of £69m subject to specific prior approval (on the basis of a full investment appraisal) for projects involving capital and non-recurring current account spending of more than £5m and the capital allocations set in the context of Investment and Financing Reviews;
- (iv) DTI and Treasury officials should, with NGB, review NGB's financial target and dividend policy in respect of NGB.

TP4a

DTI

December 1986

NATIONAL GIROBANK BUSINESS PLAN 1986 - FINANCIAL IMPLICATIONS

Introduction

1. The overall Plan forecasts are for:
 - (a) growth in the level of business in terms of transactions and accounts albeit slower than achieved in the five years to 1985-86;
 - (b) growth in the balance sheet from customer deposits and assets to match those deposits;
 - (c) higher income and profits;
 - (d) a major investment programme necessary for the continual development of electronic banking;
 - (e) this investment programme financed with a margin to spare from retained profits; and
 - (f) a need for additional capital to support the growing balance sheet, estimated by NGB at £10m in 1987-88 and £10m in 1988-89.
2. But detailed forecasts of NGB's future financial position are necessarily uncertain, given the highly competitive and rapidly changing market for financial services and represent NGB's prudent expectations (deliberately cautious where growth of new business is concerned) rather than firm predictions. The case for adopting this approach is emphasised by changes that have occurred since the Plan was prepared, chiefly developments in NGB's thinking on its capital spending programme and the IFR outcome with respect to NGB.

Capital Requirements

3. There is a paradox in a company which has a negative EFL requiring a substantial injection of capital. This paradox is explained because in banking, unlike other industries, the prudent banker is required by the Bank of England to keep sufficient free capital reserves (ie capital not needed for fixed asset purchases) against the risks involved in accepting deposits and lending money. The Bank sets minimum values individually for each bank for two measures of capital adequacy. These values whilst binding, are subject to review in the light of development of the business. On the liabilities side NGB has a target for the gearing ratio which requires it to have £1 of extra capital for every £25 of additional deposits accepted. On this basis the £20m capital injection would allow NGB's deposits to rise by £500m. The risk assets ratio, which is the relationship between free capital and assets, is more complex. Because different types of lending are considered to be more risky than others different categories of assets have different weights. In particular lending to the public sector, having a low risk, has a lower weight than lending to the private sector or to individuals. However, the main thrust of NGB's Plan is to increase lending to individuals and to small and medium-sized companies. For this

type of development the Bank of England requires NGB to have at least £1 of free capital for each £10 of additional lending. On this basis the £20m capital injection can support a maximum of £200m additional lending weighted at 1.0. However, because some forms of lending (eg to connected bodies) and different types of assets (eg investments) attract a higher weighting it does not necessarily follow that £20m of additional capital would finance as much as £200m extra lending. The risk assets ratio is therefore, at present, a tougher constraint than the gearing ratio. Hence in this analysis the emphasis is directed towards the risk assets ratio as it is the impact on this ratio which drives the need for capital.

4. Table A1 sets out NGB's latest forecasts of its profitability and position against its risk assets ratio consistent with the achievement of the IFR outcome. The table shows the position with and without the proposed capital injection. With the capital injection profits are forecast to double by 1990-91 as compared with 1985-86 although the rate of increase is uneven, with larger annual increases in the early years and marginal reductions in profits in the last two years. With the increases in retained profit and the two £10m transfers of new capital, the free capital base for purposes of its risk assets ratio is forecast to grow at an average of 20 per cent each year giving NGB a satisfactory margin against its minimum risk assets ratio of 10 per cent.

5. The growth in the balance sheet and the capital requirements to match that growth need to be seen in the context of developments in the banking market and NGB's intended position in it. This has been dealt with in the main paper but the essential point is that, in a changing competitive market place, if NGB cannot keep pace with these changes in the end it will wither away.

6. Detailed questions about the operation of prudential controls are matters for the Bank of England and NGB, but Ministers need to be aware of the implications of the Bank's prudential supervision of NGB for the business's financial prospects and ability to meet targets set by the Government. Without a capital injection the risk assets ratio falls below the minimum 10 per cent target (see Table A1). In anticipation of this situation the Bank of England would require NGB to take action to ensure this did not happen. It would therefore have to adjust its plans, most likely by reining back the proposed expansion of profitable lending to the private sector and replacing this by lending to Government at lower rates. This would have an immediate impact on profits and the ability to meet the EFL and worsen NGB's long-term future prospects.

7. In addition the Bank of England, in a letter to NGB on 31 July, stated they were clearly in favour of the projected £20m capital injection and made the following points:

- (i) They supported NGB's "objective in raising additional equity given the growth path Girobank hopes to pursue and the capital expenditure it will inevitably incur as part of its business development".

- (ii) "The Bank likes all authorised institutions to be capitalized at a level which is more than just adequate".
- (iii) "Girobank would seem to need a fairly comfortable margin to allow for any unevenness in the growth of capital relative to the overall growth of the balance sheet."
- (iv) "The risk assets ratio is projected to fall very close to the 10% minimum the ratios projected seem to be too close for comfort and some additional capital up front, to provide a better margin, seems therefore most desirable."

8. NGB has had to take vigorous steps to adjust its asset weighting to improve its figures. The limit to adjustments of a technical nature has now been reached. Comparisons with the major clearers show the following (at 31 December 1985):

	<u>Risk Assets Ratio</u>	<u>Gearing Ratio</u>
Barclays	10.1	7.1
Lloyds	11.1	7.4
Midland	8.1	6.8
Nat West	*9.0	6.9
Girobank	11.8	4.7

(*Now probably around 10 per cent following the recent rights issue)

The conclusions drawn are that NGB's expected differential of about 3 points over the majors on risk assets ratio is not being maintained, and secondly the gearing ratio for NGB is now out of line relative to the others. Figures are not available for the Scottish clearers but it is understood that their risk assets ratios stand above 11 per cent.

9. NGB's profit base is built on servicing customers such as Sainsbury's and other major High Street names. On the lending side exposures have traditionally been concentrated on local authorities and other nationalised industries. As part of more general developments in the strengthening of prudential supervision of banks, the Bank of England are preparing new guidelines on the supervisory treatment of large exposures. In a consultative paper issued in July this year the Bank set out the policies that will be reflected in the new guidelines. No exposure to an individual borrower should exceed 25 per cent of capital base except in the most exceptional circumstances and the Bank will require that all exposures to individual non-bank borrowers over 10 per cent of a bank's capital base should be reported to the Bank. Where a UK incorporated bank has a number of exposures more than 10 per cent of capital base, the Bank will generally require higher capital ratios to be maintained than would otherwise be the case. In NGB's case, for 1986/87 10 per cent of capital base amounts to £6.2m. However, this level is far lower than the sums that NGB has been lending to individual

local authorities and nationalised industries in the past, and in some cases the new limit would be regarded by these large organisations as derisory. Similarly in the case of very large customers swings can occur on their accounts of amounts greatly in excess of this maximum exposure limit, and it could become a serious problem if NGB were to be unduly constrained in servicing its major customers. There is therefore a potent argument that the absolute level of NGB's capital base is too small to service adequately the customers on which the profitable part of its business has been built.

IFR outcome and capital expenditure

10. The need for capital is only one half of the financial picture of NGB. The other is the need for capital for expenditure on fixed assets and the associated EFL.

The history of IFR bids is shown:

(£m)	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
NGB's initial bid	+ 1.2	- 9.3	- 8.8
Baseline	- 5.9	-14.1	-14.5
Outcome	- 2.9	-14.1	-14.5

11. NGB has accepted the outcome on the basis that it will use its best endeavours to secure the profit to meet the EFL/EFRs while financing its revised capital programme. It will secure increased profits by expanding the range and volume of profitable business (e.g the mortgage service introduced in October), by taking advantage of commercial opportunities that arise or can be identified (such as the sale earlier this year, at a premium, of one of its leasing subsidiaries), maximising the benefits of tax and working capital management, and if, necessary, profit taking through sale of gilts before their maturity. NGB believes that the proper course is to generate improved trading profits.

12 The main items of capital expenditure are computers and associated equipment. Since the Plan was written considerable effort has been devoted internally, and involving outside consultants commissioned by the new Managing Director, to review current and future computer requirements. The main changes since the Plan concern the sourcing of mainframe computers and the related question of contingency arrangements. It is pertinent to note the Bank of England's comment to NGB in their letter of 31 July:

"to protect yourselves against the incidence of computer failure or other problems at Bootle some form of back-up system seems essential both on grounds of operational efficiency and general prudence. This is bound to involve you in additional capital expenditure".

The Plan assumed implementation of CALM in 1987 using ICL with gradual migration to IBM starting in 1988/89. However, in the light of the systems review NGB has concluded, on the grounds of long term cost and the form of contingency and to minimise business risks associated with inadequate flexibility, that there would be benefits in introducing CALM from the start on IBM machines. NGB is aware that nearly all other banks in the UK use IBM and believes that by using this hardware it can take advantage of proven software packages. Similarly it thinks that contingency can be addressed more safely, with many more options open, by using IBM. Given the industrial policy implications of NGB switching from ICL, DTI has agreed arrangements with NGB for a mutually acceptable independent consultant to advise on the technical aspects of the choice between ICL and IBM. This is aimed at ensuring that the final decision (which will in any event be subject to prior approval on the basis of a full investment approval to be submitted to DTI) is made on a robust and fair basis. A final decision will not be made before next February but the expected impact on the capital programme is reflected in the latest forecasts in Table A2 of capital investment with the £20m capital injection. This has produced a small increase in the overall size of the capital programme (£69m compared with £65m in the Plan) but the phasing is changed with a greater proportion now forecast for 1987/88.

Staff costs and productivity

13. A broad indication of NGB productivity is given by looking at the volume of business handled against the staff required to handle it. On this basis significant productivity improvements were made in the five years to 1985/86 during which the number of personal current accounts grew by over 100 per cent and processings by 60 per cent but manpower increased by only 14 per cent. The Plan envisages further productivity improvements but not at the pace of the last five years when the easier routes to improvements, for example introducing more comprehensive shift working, were taken nearly as far as they can go. The Plan forecasts 40 per cent growth in the number of personal current accounts and processing with a 10 per cent increase in manpower over the plan period. Productivity improvements are expected to be made through changes in working methods, in particular the computerisation of work that is currently undertaken manually. Table A3 gives figures derived from the Plan for personal accounts and processings per head. They show annual improvements twice as high in 1988/89 and beyond as compared with earlier plan years. This reflects the implementation of CALM. However, this picture is not carried through into forecasts of staff costs, reflecting NGB's increasing requirement over the plan period for higher grade and specialist staff to operate the improved computerised systems and to handle the expansion of lending and other services.

NGB relationship with Counters

14. The Plan recognises the importance of the relationship between Counters and NGB. The key to this is a long-term contract that is all but finalised. It covers the types of business undertaken by Counters as NGB's agent and sets out a fixed and

variable cost table of charges. These will be linked to the RPI and reflect improved Counters efficiency. The intention is for the contract to last at least five years with a five-year minimum notice period. The objects are to ensure that NGB traffic across counters grows and that the benefits of improvements in the efficiency of Counters are passed on to NGB through lower real prices. Until now Counters' charges have been a matter for triennial and, more recently, annual arm's-length negotiation between NGB and Counters and forecasts of the charges have subsequently been subject to some uncertainty. The new contract will provide a more robust basis for long-term forecasts of Counters' charges. DTI does not believe that the contract need inhibit Ministers' plans for the future of the business. Indeed its existence is a prerequisite for most options envisaged for carrying them out.

TP4a
DTI

December 1986

TABLE A1

PROFIT AND RISK ASSETS RATIO

	1986/87	1987/88	1988/89	1989/90	1990/91
<u>With Capital Injection</u>					
Profit before dividend and tax £m	20.8	23.2	33.1	33.0	32.1
Profit Retained £m	11.5	12.9	19.1	19.0	18.6
Return on Mean Net Assets %	24.7	23.7	27.3	23.0	20.1
Weighted Assets £b	0.62	0.78	0.97	1.10	1.22
Capital Base £m (RAR)*	77.3	88.5	115.4	135.1	153.9
Risk Asset Ratio %	12.5	11.4	11.9	12.3	12.6
Gearing Ratio %	4.8	4.8	5.7	6.1	6.5
<u>Without Capital Injection</u>					
Profit before dividend and tax £m	20.8	23.2	33.1	33.0	32.1
Profit Retained £m	11.5	12.9	19.1	19.0	18.6
Return on Mean Net Assets %	24.7	25.0	30.7	26.5	22.7
Weighted Assets £b	0.62	0.78	0.97	1.10	1.22
Capital Base £m (RAR)*	77.3	78.5	95.4	115.1	133.9
Risk Asset Ratio %	12.5	10.1	9.8	10.5	10.9
Gearing Ratio %	4.8	4.1	4.5	5.1	5.6

* Capital base for purposes of calculating the risk assets ratio BLE A2

TABLE A2

INVESTMENT IN FIXED ASSETS

	£m outturn prices					
	1986/87	1987/88	1988/89	1989/90	1990/91	TOTAL
Business Plan						
Investment without capital injection	10.9	14.5	14.2	12.5	13.0	65.1
Investment with £20m capital injection	10.1	22.0	12.6	11.3	12.5	68.5

TA. 3 A3

Manpower, staff costs and output

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Average Manpower (No)	5900	6100	6300	6300	6400	6500
Index	100	103	107	107	108	110
Staff costs (£m outturn prices)	64.1	68.3	74.6	80.7	88.3	97.3
Index (£m outturn prices)	100	107	116	125	138	152
Index (1985/86 prices)	100	102	107	109	114	120
Personal accounts handled per head (No)	310	317	325	348	371	395
Index	100	102	112	120	120	127
Processings handled per head ('000)	73.5	76.9	79.5	84.8	89.1	93.7
Index	100	103	109	117	127	138

NATIONAL GIROBANK - PERFORMANCE REVIEW 1986

1. This performance review covers the period 1981-82 to 1985-86 with estimates where available for 1986-87.

Background

2. National Girobank (NGB), the trading name of Girobank plc, is a wholly-owned subsidiary of the Post Office. Girobank plc was incorporated in September 1985 and started trading on 3 October 1985. It has been granted recognised banking status by the Bank of England. NGB had previously operated as a separate business within the Post Office, with its own managing director, trading name and accounts. NGB is the smallest clearing bank. It was originally established to provide a money transmission service. But increasing losses resulted in a policy review in 1975 (Development of National Giro Cmnd 6344). As a result £16.7m worth of losses were written off and the Post Office was given sufficient powers to enable NGB to offer a wider range of services in competition with other banks. Since then it has developed a range of banking services similar to, but still more limited than, those offered by the other clearing banks. A major competitive strength has been its policy of free banking for accounts in credit; it also benefits from the long opening hours and widespread availability of its retail outlets through the Post Office counters network.

3. NGB has its operational headquarters in Bootle on Merseyside. It has also established regional offices in Liverpool, Birmingham, Edinburgh, Leeds and Bristol. It also has smaller "growth" offices in Ashford, Cardiff and Manchester. However, most of its transactions take place across the 21,000 post office counters. Just under half its annual income (£29m 1985/6) comes from interest earned. The rest is received from fees and charges on money transmission and services for corporations, local authorities and utilities. NGB operates in direct competition with other banks and building societies in all these activities. There is no element of monopoly. Staff costs of £64m in 1985/6, for the 5,800 employees, form 23 per cent of total costs. Charges by the Post Office for the use of counter facilities and mail transmission (£157m 1985/6) represent over half of the annual operating costs (£274m 1985/6). The charges are set on a commercial arm's-length basis. There is no subsidy or cross-subsidisation. At the start of 1986 NGB re-organised itself into three divisions; personal, corporate and treasury banking.

4. NGB has continued to introduce new services for its customers. In the face of increasing competition and the general move to free banking by the major United Kingdom banks, NGB has strengthened its competitive position with new services such as the Visa credit card, the Flexiplan revolving credit facility for personal customers, and mortgages and by developing the range of insurance services offered. Further operational information is shown in Table B1.

Table B1 NGB Business Growth and Staff Numbers

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 (est)
Personal Current Account Holders ('000 end year)	1080	1300	1542	1808	1927	2020
Corporate Deposits (£bn)	20	23.3	26.7	30.7	32.5	34.9
Staff Numbers (end year)	5294	4134	5337	5800	5856	5975

Source: National Girobank

Objectives

5. Like other parts of the Post Office NGB has not been set separate strategic objectives but is covered by the objectives that the Secretary of State set for the Post Office on 21 July 1986. In common with the other discrete businesses within the corporation, NGB is expected to secure maximum efficiency throughout the business, and reduce the real manpower and other costs of its services. NGB should make a profit in each year sufficient at least to meet the published financial targets.

Targets

6. NGB is set an external financing limit (EFL) and financial target. These are distinct from those set for the remainder of the Post Office. In addition it is subject to prudential supervision by the Bank of England in the same way as any other recognised bank.

Performance against external financing limit (EFL)

7. Formal EFLs have been set for NGB since 1978/79. Table B2 shows NGB performance against EFL for each year since 1981-82. External financing has been comfortably at or within the limit each year since 1982-83 and the target was bettered by £0.9m and £0.1m respectively in 1984-85 and 1985-86.

Table B2 National Girobank: External Financing Limit (£m)

Year	EFL	Achievement	Performance Against Target
1981-82	12.0	9.3	+2.7
1982-83	-0.2	-0.9	+0.7
1983-84	-0.8	-0.8	-
1984-85	-1.2	-2.1	+0.9
1985-86	-3.0	-3.1	+0.1
1986-87 (est)	-5.8	-6.6	+0.8

Source: Post Office Report and Accounts

Monitoring Returns

8. A number of factors contribute to external financing meeting or bettering the target over the period. Profit has been consistently higher than forecast and levels of capitalised leasing lower than expected. In addition, capital expenditure has, for three of the years shown in Table B2, been lower than budget (see Table B3 below).

Table B3 National Girobank: Capital Expenditure Compared with Budget (£m)

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (est)
Budget	11.8	8.8	10.0	12.4	10.1	8.9
Outturn	5.5	3.7	11.1	13.0	8.3	9.2
Overspend (Under- spend)	(6.3)	(5.1)	1.1	0.6	(1.8)	0.3

Source: Year end funds flow statements
Monitoring returns

Financial target

9. The financial year 1985-86 was the first of a three-year period for which the Government have set a target requiring NGB to make an average return in historical cost terms of 22 per cent on mean net assets before interest on long-term loans (the target for the previous three years was for an average return of 19 per cent). In 1985-86 NGB achieved a return of 23.7 per cent. Details of performance against financial target for the review period are set out in Table B4. This shows that NGB has consistently exceeded the target over the period.

Table B4 Performance against Financial Target

Year	Financial Target		Achievement		Performance Against Target	
	RMNA %	£m equivalent	RMNA %	£m equivalent	RMNA %	£m equivalent
1981-82	17.1	7.1	33.3	13.4	+16.2	+6.3
1982-83	19.0	10.1	33.1	17.6	+14.1	+7.5
1983-84	19.0	11.6	25.3	15.5	+ 6.3	+3.9
1984-85	19.0	13.5	26.4	18.8	+ 7.4	+5.3
1985-86	22.0	18.0	23.7	19.4	+ 1.7	+1.4
1986-87 (est)	22.0	20.3	24.7	22.8	+ 2.7	+2.5

Source: Post Office Report and Accounts
Monitoring returns
RMNA: Return (before interest) on Mean Net Assets

10. Excess over target for much of the period covered by the review can, in the main, be attributed to higher than predicted interest rates although it is difficult to determine the precise effect of the difference between actual interest rates and those forecast.

Capital Structure

11. During the period up to 1974-75, in which, NGB was becoming established (achieving break-even that year), accumulated net losses were incurred amounting to £33.4m, financed out of National Loans Fund (NLF) borrowing of £42.5m. Capital reconstruction of the business in 1976 wrote off half these losses (£16.7m) and converted half of its remaining gross NLF indebtedness (£25.8m) into public dividend capital (PDC) of £13m. The next significant capital injection of £8m (£4m NLF; £4m PDC) took place in 1978/79. In 1981/82 a further £7.3m of capital financing was provided (£5m PDC; £2.3m NLF) to allow NGB to maintain its investment programme in the light of the severe effect of the levy imposed that year on all banks' non-interest-bearing deposits. The effect of the changes on the overall capital structure up to 30 March 1985 are shown in Table B5 below.

Table B5 National Girobank: Capital Structure

	1 April 1975 On Reconstruction	31 March 1979	£million) 30 March 1985
Long term loans (NLF)	12.7	16.7	19.0
Public Dividend Capital	13.0	17.0	22.0
Accumulated Profit/Loss	(16.1)	(10.3)	19.7
Net Capital	9.6	23.4	60.7

Source: Post Office Report and Accounts.

Capital Structure since incorporation as a subsidiary

12. Girobank plc was incorporated in September 1985 with the issue of 50,000 £1 ordinary shares for a cash consideration paid by the Post Office. On 3 October 1985 the company issued a further 21,950,000 £1 ordinary shares to the Post Office together with subordinated loan capital of £19,040,850 in consideration for the transfer of the property rights and liabilities of the NGB business to Girobank plc. The transfer was effected under a scheme under section 60 of the British Telecommunications Act 1981. The original NLF and PDC remain with the Post Office. Consequently Girobank plc currently has a £22m issued and paid up share capital and £19,040,850 of subordinated loan capital.

Dividend policy

13. With the introduction of PDC in 1975-76, the Post Office became liable to pay public dividends of "such amounts as may be proposed by the Post Office and agreed by the Secretary of State or such other amounts as the Secretary of State may determine after consultation with the Post Office" and with the approval of the Treasury (section 3 of the Post Office (Banking Services) Act 1976). NGB's proposals on dividend have consistently been that this should be equivalent to but not exceed the yield that the Government would have derived had the capital been NLF rather than PDC.

14. Dividend was waived in 1981/82 in response to the effect on NGB's funding of the special levy on bank deposits. But dividend of £2.9m (£2.0m after payment of advance corporation tax) was paid on 1982/83 results, £2.8m was paid in 1983-84 and £2.9m in both 1984-85 and 1985-86.

Computer Systems and Information Technology

15. NGB plans to introduce a new computer system, called CALM, to deal with personal customer accounts. It will provide NGB with better control of personal accounts and allow it to charge customers in the same way as other clearing banks do so, and thereby contribute significantly to NGB's profitability. The need for a CALM project was endorsed by the Post Office Board in 1983. However, a re-evaluation of CALM by outside consultants was commissioned by the new Managing Director. This confirmed that the project as originally planned was inadequate given actual and forecast development in the range and volume of NGB's business. Implementation of a revised project is not expected until the end of 1987, and it will be early 1988 before the system is fully operational. Crucial to CALM is its hardware, and NGB's management is currently considering a range of options including ICL and IBM equipment.

16. In April 1985, NGB launched a network of automated teller machines (ATMs) and to date 160 machines have been installed and were in operation. The machines are part of a wider network being established by the Link consortium, an organisation which includes many financial institutions in the retail financial sector. It is planned to expand the ATM network throughout the rest of 1986/87.

Prudential supervision

17. One of the factors which affects NGB's performance against the EFL is the need for it to conform to certain prudential guidelines applicable to all banks which are laid down and supervised by the Bank of England, in particular the gearing ratio and the risk assets ratio. NGB's objective is to ensure that the gearing ratio does not fall below 3 per cent and a comfortable margin is maintained above a risk assets ratio of 10 per cent. The figure of 10 per cent set by the Bank of England very much represents a minimum level. The Bank's preference is that a margin of 1 per cent should be aimed for and the ratio should not fall below 10.5 per cent. NGB's limited ability to raise new

capital has constrained expansion of NGB's banking services, particularly into lending, with its risk assets ratio declining until by the end of 1984-85 it was just at the limit of what the Bank of England judged acceptable. Given its plans to develop the business NGB considers that a capital injection is required to solve this problem and the Bank of England agree. NGB has proposed an injection of £20m.

Conclusion

18. NGB's performance over the review period has been good. It has out-performed its targets and, despite competition from the other clearing banks and the building societies, it has continued to expand in both the personal and corporate sectors.

19. But for the future, NGB's ability to continue to compete successfully with other banks, its profitability and development of the range and volume of its business depend on decisions on its 1986 Business Plan and their implementation - in particular the capital injection proposed, and planned improvements in its computer systems and contingency arrangements.

TP/DTI
December 1986



POST + TELECOM

FRANK OF P.O

18. ...
19. ...
20. ...

December 1986



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY 19

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copy 2 of 12

SECRET

22 December 1986

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

N BPN

Dear Chief Secretary

at flap
NATIONAL GIROBANK : 1986 BUSINESS PLAN

Following my letter of 13 May to Nigel Lawson we agreed to look again at the position on Girobank after the General Election. Against that background we need to take a view on how we wish the business to develop in the interim. We have proposals from NGB in its 1986 Business Plan.

I enclose a paper prepared by my officials in consultation with yours. The Bank of England have also been consulted and agree with the paper's main recommendation. I endorse the paper's recommendations and, subject to any views that you and other colleagues may have, I propose to write accordingly to Sir Ronald Dearing as soon as possible in the New Year.

The officials' paper focuses in particular on the proposed capital injection by the Post Office of £20 million, taking into account developments since the Plan was prepared. The main thrust of the Plan is that in order to continue to prosper (and thereby maintain or, preferably, enhance its saleability), NGB needs to build on the relatively limited base that it has established to date and compete effectively in the highly competitive and rapidly developing market for financial services. It needs to offer a more complete range of services and it needs the skills, equipment and systems to support such development. But there is a price to pay. Girobank must have sufficient capital to develop prudently with an adequate margin of security and the Plan proposes a capital injection of £20 million.

JF5BOP

17
19
86
BOARD OF TRADE
BICENTENARY



SECRET

As explained in the paper, developments since the Plan was prepared, for example the IFR outcome and the Bank of England's continuing work on strengthening the prudential supervision of banks, have reinforced this need. Fortunately our officials have confirmed that the capital injection would have no EFL effect and would consequently be neutral as far as the PSBR is concerned. The cost of ensuring that Girobank has a more adequate capital base will not therefore fall on public funds.

I agree with Girobank management that we need to give the bank the freedom and the resources to develop its business prudently in an increasingly competitive market. This applies while it remains in public ownership, but still more when we view it as a candidate for privatisation whose value we must maintain. We shall of course have the opportunity to review progress in the light of next year's Plan (which is already being prepared).

I should be grateful for your early agreement that we should endorse the recommendations in the attached paper; a response by 9 January would be helpful.

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

*Yours sincerely
Paul Channon*

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

JF5BOP

Post & Tele comm. future PTIO.



As explained in the report, developments since the time when
proposed, for example the UK outcome and the fact of England's
continued work on strengthening the professional supervision of
banks, have reinforced this view. Unfortunately our officials have
concluded that the capital injection would have no effect and
would consequently be costly as far as the 1958 is concerned. The
cost of ensuring that Disbank has a workable capital base
will not therefore fall on public funds.

I agree with Disbank's management that we need to give the bank the
freedom and the resources to develop its business properly in an
increasingly competitive market. This applies while it remains in
public ownership, but will more than ever be a condition for
privatisation whose value we must maintain. We shall of course
have the opportunity to review progress in the light of next year's
plan (which is already being prepared).

I should be grateful for your early agreement that we should
undertake the reorganisation in the proposed papers a response by
3 January would be helpful.

I am copying this letter with enclosures to the Prime Minister and
other members of the Cabinet, the Secretary of State, and the Board of Directors.

Handwritten signature

Approved by the Secretary of State and
signed in his absence



RH3BPS
bc BG.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 December 1986

Dear Pthe,

CABLE AND WIRELESS

Sir Keith Joseph called to see the Prime Minister this morning. In his capacity as a consultant to Cable and Wireless he explained that a decision on the telecommunications contract in Japan in which Cable and Wireless has an interest is expected before the end of January. The Prime Minister of Japan and the Minister of Finance were on the whole in favour of the consortium in which Cable and Wireless were participating; the Minister responsible wished to exclude any foreign interests. Sir Keith said Cable and Wireless were most grateful for the help being given by your Secretary of State, but there was now a case for the Prime Minister to intervene again. Sir Keith asked her permission for Cable and Wireless to approach the DTI, the Foreign Office and the Treasury to help prepare a paper setting out the options for such an intervention. The Prime Minister readily agreed that this could be done and commented that if she was going to intervene she would need to do so well before a decision was taken.

The Prime Minister wishes to be kept in touch with the progress of the competition.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office) and Tony Kuczys (H.M. Treasury).

Yours,
David.

DAVID NORGROVE

Michael Gilbertson, Esq.,
Department of Trade and Industry.

BM

RESTRICTED

CCBG

SPD10AM09

PRIME MINISTER

TELECOMMUNICATIONS POLICY

NBSM,

at Prop

1. I have seen Brian Unwin's minute to you of 10 December 1986.
2. I am content with the actions outlined in paragraph 8 of his minute, and in particular with the proposal that the Government should issue a consultation document on Peacock Recommendation 15, and that the Official Group should prepare a draft.
3. I am copying this minute to other members of E(TP) and to Sir Robert Armstrong, John Fairclough and Brian Unwin.

KB

KB
Department of Education and Science

18 December 1986

RESTRICTED

Post & Tel: Future of Post office PT10



Call

P 02401

Prime Minister

Priny Unit have no comments.

PRIME MINISTER

Agree the conclusions in paragraph 8 subject to colleagues?

I have doubts about setting up group to study part 2a for meeting

Telecommunications Policy

JWS
16/12

In October you reconstituted the Ministerial Sub-Committee on Telecommunications Policy (E(TP) to consider the implications of possible development of electronic communications infrastructure in the UK. This minute reports the work which has been put in hand by the supporting Official Group, which I Chair. There is only one specific point on which we seek Ministers' agreement now: this is whether the Government should issue a consultation document on recommendation 15 of the Peacock Committee, ie that British Telecom (BT) and Mercury should become 'common carriers' for a full range of services. This is covered in paragraph 5 below.

Consultancy Studies

2. Recent advances in optical fibre technology have changed the economics of integrated broad-band systems - even since the White Paper on Cable Systems of April 1983 - offering further possibilities for new and expanded services both to business customers and to householders. The Government's objective must be to foster a climate favourable to worthwhile developments and one in which UK customers and suppliers are well placed to reap the potential benefits. This will entail holding a careful balance between exciting policies and decisions (such as the consequences of the privatisation of BT and the franchising of nine cable systems so far) and the exciting new possibilities that may be open.

?

3. We have therefore agreed in the Official Group that as a start and as a "map" for our future work an expert study should be commissioned from consultants to identify and analyse scenarios for the development of communications infrastructure over the next two decades. This study - which is likely to take 6-12 months in a number of monitored stages - will provide an informed basis for

Comm?
Agreed
why?

reviewing current policies and reaching policy conclusions for the future. DTI will set up a small Steering Group of outside experts to monitor and guide the development of this work. This Group will include the Director General of Telecommunications and the Chief Scientific Adviser, Cabinet Office, Mr Fairclough, with whom the terms of reference of the study have been agreed.

4. DTI will also commission at an appropriate time a study into advanced terminal equipment, to identify what will be required in the 1990s to exploit the full market potential of integrated networks.

5. We shall consider the results of these studies in the Official Group and report to Ministers at the appropriate time.

Consultations on Peacock Recommendation 15

6. The Peacock Committee recommended that national telecommunications systems (BT and Mercury at present) should be permitted to act as common carriers with a view to distributing a full range of services, including television programmes. This recommendation could have the effect of reversing the thrust of much of the Government's present telecommunications policy, which is to encourage and promote competition to BT but not to exclude BT participation subject to certain safeguards. It therefore raises issues wider than broadcasting policy, and the Home Secretary has made it clear that it will be considered separately from the other Peacock recommendations. If accepted, it would have significant financial and economic implications, not only for BT and Mercury but also for the cable and DBS franchise holders whose plans are based on the existing policy.

7. We do not think it would be right for the Government to reach a conclusion without taking full account of the views of those affected. The Official Group therefore recommend that the Department of Trade and Industry should issue a consultation document. This might highlight the complexity and fast-changing nature of the communications scene, emphasise the Government's wish for suppliers and users to obtain the benefits of new

technology as quickly as possible, and perhaps propose that the Government's basic approach should be consistent with and clearly supportive in principle of moves by BT and Mercury into the broadband era while at the same time protecting both competition and the interests of existing cable systems. If Ministers approve the principle of issuing such a document, the Official Group will prepare a draft for issue early in the New Year after circulation to E(TP). The Steering Group referred to in paragraph 2 above might help us in assessing responses to consultation.

CONCLUSION

8. I therefore invite Ministers:


i. to agree in principle that the Government should issue a consultation document on Peacock Recommendation 15;

ii. to invite the Official Group to prepare a draft;

iii. to note that the Department of Trade and Industry are commissioning two studies from consultants;

iv. to note that DTI will also establish a small Steering Group of outside experts.

9. I am copying this to members of E(TP) and to Sir Robert Armstrong and Mr Fairclough.


J B UNWIN



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 November 1986

RESPONSIBILITY FOR THE GOVERNMENT'S
RESIDUAL HOLDINGS IN BT AND SPECIAL SHARE
IN CABLE & WIRELESS

The Prime Minister has seen your letter to me of 24 November and is content with the proposed transfer of functions between the DTI and the Treasury.

I am copying this letter to Alex Allan (H.M. Treasury), Stephen Boys Smith (Home Office) and Trevor Woolley (Cabinet Office).

(David Norgrove)

Miss Catherine Bradley,
Department of Trade and Industry.

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OIC

2039



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Secretary of State for Trade and Industry

PS/

24 November 1986

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister
Concurs with the proposed transfer of responsibilities?
Yes

Dear David,

RESPONSIBILITY FOR THE GOVERNMENT'S RESIDUAL HOLDINGS IN BT AND SPECIAL SHARE IN CABLE & WIRELESS

DLV
24/11

My Secretary of State would be grateful for the Prime Minister's approval of a proposed transfer of functions between this Department and the Treasury. It concerns responsibilities for the Government's residual holdings of shares and debt in BT and its single share in Cable and Wireless (C & W).

The Government's holdings in BT, which on paper are worth some £9 billion, are under my Secretary of State's control by virtue of the Telecommunications Act 1984. The special share in BT is also under his control, but that in C & W is under the control of the Treasury. E(A) decided in 1984 that residual shareholdings in privatised companies should be held by the Treasury and special shares by sponsoring Departments. This was to avoid any possible conflict of interest.

The transfer of functions now proposed will fulfil the E(A) remit in respect of the telecommunications sector. It needs to be effected by an Order under the Ministers of the Crown Act 1975. The attached draft Order has been agreed with the Treasury. It will make all the relevant powers concurrent and, when it is implemented, agreed letters will be exchanged setting out exactly how the powers will be exercised in future. Broadly, this Department will continue to be responsible for matters connected with the BT flotation, including next year's 1 for 10 share bonus, and for all matters connected with the special shares; the Treasury will be responsible for stewardship of the residual holdings in BT, including accounting for dividends and other receipts. No transfer of staff or other resources is involved.

DW5BAW

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BICENTENARY



I am sending a copy of this minute to the Private Secretaries of the Chancellor of the Exchequer, the Home Secretary and Sir Robert Armstrong.

Yours sincerely

C Bradley

CATHERINE BRADLEY
Private Secretary

DW5BAW

STATUTORY INSTRUMENTS

1986 No.

MINISTERS OF THE CROWN

**The Transfer of Functions (Secretary of State and Treasury)
Order 1986**

<i>Made</i>	- - -	1986
<i>Laid before Parliament</i>		1986
<i>Coming into Operation</i>		1986

At the Court at Buckingham Palace, the day of 1986

Present,

The Queen's Most Excellent Majesty in Council

Her Majesty, in pursuance of section 1 of the Ministers of the Crown Act 1975(a), is pleased, by and with the advice of Her Privy Council, to order, and it is hereby ordered, as follows:—

Citation, interpretation and commencement

1.— (1) This Order may be cited as the Transfer of Functions (Secretary of State and Treasury) Order 1986.

(2) In this Order—

“the 1981 Act” means the British Telecommunications Act 1981(b);

“the 1984 Act” means the Telecommunications Act 1984(c).

(3) In this Order, unless the contrary intention appears, expressions which are also used in Part V of the 1984 Act have the same meanings as in that Part.

(4) This Order comes into operation on 1986.

Transfers of functions

2.— (1) There are hereby transferred to the Secretary of State, so as to be exercisable concurrently with the Treasury and with their consent, the following functions of the Treasury, namely—

(a) functions under section 79(2) of the 1981 Act; and

(a) 1975 c. 26.

(b) 1981 c. 38.

(c) 1984 c. 12.

- (b) functions exercisable in relation to any telecommunication securities which are for the time being held by the Treasury or a nominee of theirs.

(2) There are hereby transferred to the Treasury, so as to be exercisable concurrently with the Secretary of State, the following functions of the Secretary of State, namely—

- (a) functions under section 63, 64(2) or 65(4) of the 1984 Act or under section 64(1) of that Act so far as relating to the appointment of nominees, or to nominees appointed, for the purposes of the said section 63;
- (b) functions exercisable in relation to any telecommunication securities which are for the time being held by the Secretary of State or a nominee of his;
- (c) functions exercisable in relation to any loan stock of British Telecommunications plc which is for the time being held by British Telecommunications; and
- (d) without prejudice to the generality of paragraphs (b) and (c) above, functions under the instruments listed in Schedule 1 to this Order.

(3) In this Article "telecommunication securities" means securities of Cable and Wireless plc or of British Telecommunications plc.

Supplemental

3.—(1) The provisions of Schedule 2 to this Order shall have effect for the purpose of making consequential amendments in the enactments and instrument there mentioned or otherwise adapting them to the provisions of this Order.

(2) The instruments listed in Schedule 1 to this Order shall have effect as if any reference to the Secretary of State or a nominee of his included a reference to the Treasury or, as the case may be, a nominee of theirs.

(3) Subject to the express amendments made by the foregoing provisions of this Article, any enactment or instrument passed or made before the coming into operation of this Order shall, so far as may be necessary for the purpose or in consequence of the transfers effected by this Order, have effect as if—

- (a) any reference to the Secretary of State or a nominee of his included a reference to the Treasury or, as the case may be, a nominee of theirs; and
- (b) any reference to the Treasury or a nominee of theirs included a reference to the Secretary of State or, as the case may be, a nominee of his.

Clerk of the Privy Council.

SCHEDULES

SCHEDULE 1 Articles 2(2) and 3(2).

INSTRUMENTS REFERRED TO IN ARTICLES 2(2) AND 3(2)

1. The Loan Stock Transfer Agreement made on 6th August 1984 between British Telecommunications, the Secretary of State and the Law Debenture Trust Corporation plc.

2. The following agreements made on 6th August 1984 between the Secretary of State, the Law Debenture Trust Corporation plc and British Telecommunications plc, namely—

- (a) the Loan Stock Moratorium Agreement;
- (b) the Trustee Side Agreement; and
- (c) the Loan Stock Interest Payment Agreement.

3. The letters of agreement relating to the voting of the Government shareholding which were exchanged on 16th November 1984 between the Secretary of State and British Telecommunications plc.

4. The letters of agreement relating to the voting of the Government shareholding which were exchanged on 16th November 1984 between the Secretary of State and the Bank of England.

SCHEDULE 2 Article 3(1).

CONSEQUENTIAL AMENDMENTS AND ADAPTATIONS

1.— (1) In subsection (2) of section 79 of the 1981 Act after the words "Secretary of State" there shall be inserted the words "or the Secretary of State with the consent of the Treasury" and after the word "Treasury", in the second place where it occurs, there shall be inserted the words "or the Secretary of State".

(2) In subsection (3) of that section after the word "Treasury", in both places where it occurs, there shall be inserted the words "or the Secretary of State" and after the word "them" there shall be inserted the words "or him".

2. In section 61(6) of the 1984 Act, after the words "received by" there shall be inserted the words "the Treasury or".

3.— (1) In subsection (1) of section 63 of the 1984 Act, for the words "The Secretary of State may at any time, with the consent of the Treasury", there shall be substituted the words "The Treasury or, with the consent of the Treasury, the Secretary of State may at any time".

(2) In subsection (3) of that section, after the words "incurred by" there shall be inserted the words "the Treasury or".

(3) In subsection (4) of that section, after the words "received by" there shall be inserted the words "the Treasury or".

4.— (1) In subsection (1) of section 64 of the 1984 Act—

- (a) after the words “61, 62 or 63 above” there shall be inserted the words “and the Treasury may appoint such person or persons as they think fit to act as their nominees for the purposes of section 63 above”;
- (b) for the words “such nominee”, in the second place where they occur, there shall be substituted the words “nominee of the Treasury or the Secretary of State”; and
- (c) after the words “time to time” there shall be inserted the words “by the Treasury or”.

(2) In subsection (2) of that section—

- (a) after the words “nominee of” there shall be inserted the words “the Treasury or”; and
- (b) for the words “the Secretary of State may direct with the consent of the Treasury” there shall be substituted the words “the Treasury or the Secretary of State with the consent of the Treasury may direct”.

5.— (1) In subsection (1) of section 65 of the 1984 Act for the words “the Secretary of State or his nominee” there shall be substituted the words “the Treasury or the Secretary of State or their or his nominee”.

(2) In subsection (4) of that section for the words “The Secretary of State” there shall be substituted the words “The Treasury or the Secretary of State”.

(3) In subsection (5) of that section—

- (a) after the words “duty of” there shall be inserted the words “the Treasury and of”;
- (b) for the word “his”, wherever it occurs, there shall be substituted the word “their”; and
- (c) for the word “him” there shall be substituted the word “them”.

(4) In subsection (6) of that section—

- (a) for the words “the Secretary of State may take up, or direct any nominee of his” there shall be substituted the words “the Treasury or the Secretary of State may take up, or direct any nominee of the Treasury or the Secretary of State”;
- (b) for the word “him” there shall be substituted the words “the Treasury or the Secretary of State”; and
- (c) after the words “duty of” there shall be inserted the words “the Treasury or, as the case may be,”.

6. In Article 2 of the Telecommunications Act 1984 (Government Shareholding) Order 1985(a), for the words “the Secretary of State or his nominee” there shall be substituted the words “the Treasury or the Secretary of State or their or his nominee”.

(a) S.I. 1985/496.

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order transfers functions relating to the holding by HM Government of securities in British Telecommunications plc (previously exercisable by the Secretary of State) and Cable and Wireless plc (previously exercisable by the Treasury) so that the functions may be exercised either by the Treasury or by the Secretary of State.

STATUTORY INSTRUMENTS

1986 No.

MINISTERS OF THE CROWN

The Transfer of Functions (Secretary of State and Treasury)
Order 1986

Printed in the UK for HMSO by Burgess & Son (Abingdon) Ltd.

714/863290E P.O.1188 C11 6/85

p net

ISBN 0 11

LV—C (1)

13TH NOVEMBER, 1986



13TH NOVEMBER 1986
LA—C (1)



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

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11 September 1986

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

Dear Norman,

NBPN.

Thank you for your letter of 8 September to Geoffrey Pattie, who is out of the office today.

I hope you will accept that the presentational aspects of the decisions on postal prices were not overlooked. Indeed, we have taken care to ensure that the increases were justified, and were neither too much nor too soon. In the event we were able to persuade the Post Office that the increases should be deferred from the beginning of September (its initial proposal) to 20 October. Although this meant making the changes nearer to Christmas (but still a month ahead of the appearance of the Christmas stamps), it had the effect of giving the customer an extended period when prices have been pegged. It also means that the 1p reduction on second class postage will have been held for almost a year.

Given the predominance of the basic first and second class stamps in Post Office revenue, and the forecast shortfall that had to be made up in the remaining months of this financial year if the Post Office was to meet its EPL, I do not think there were any realistic alternatives to the course that has been agreed. Tariff increases are never welcome, but at least those now in prospect are justified, in the same way that last year's reduction was justified.

So far as the impact on the Christmas season is concerned, we have - as you know - pressed the Post Office hard to ensure that the Christmas discount is as extensive as possible. In response the

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Post Office has now agreed to produce:

4 million packs of 36 second-class stamps, discounted
from £4.68 to £4.30;

15 million units of 10 second-class stamps, discounted
from £1.30 to £1.20.

These proposals give a total of 19 million opportunities to buy discounted stamps - not far short of one per household (though they will be sold on a 'first come, first served' basis). The number of stamps involved is $2\frac{1}{2}$ times more than in previous discount promotions. The Post Office believes that, in terms of the physical requirements of printing in the time available, these proposals are as far as it can go. I think that they are an imaginative and satisfactory way of meeting our concern, and I understand that you agree. I have therefore told the Post Office that we are content with its proposals, which are being announced tomorrow and your office has been informed.

I am sending a copy of this letter to members of E(NI) and to Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

PAUL CHANNON

COMMERCIAL-IN-CONFIDENCE

CCBA



Chancellor of the Duchy of Lancaster

CABINET OFFICE
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

8th September 1986

Geoffrey Pattie Esq MP
Minister for Industry and Information
Technology
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

N BSN

D Scoffey
POST OFFICE TARGETS AND TARIFFS

Thank you for your letter of 29 August.

I am not clear from your letter whether you agree that the timing of the increase in the second-class postal tariff is unfortunate and, if so, what thought was given in the negotiations with the Post Office to the presentational consequences of these price decisions. Whether we like it or not, postal prices carry a high public interest - it is one of the few prices that people can easily remember - and the impact of changes in postal prices has to be carefully considered by Ministers. It may or may not be that other options on the pricing decisions were available which the Post Office were prepared to consider, and on which Ministers could have commented. Your letter, however, speaks of negotiations until an "acceptable" package was reached. According to what parameters? Did this include consideration of the presentational impact of pricing decisions and, in particular, those factors which we had in mind when pressing for a price reduction in late 1985? If it did, the insistence on a deferral from 4 October to 20 October looks odd.

As regards discounted stamps in the pre-Christmas period, I should say that it is important for the arrangements to be announced in time to offset, at least in part, the publicity effect of the price increase in October. Ideally the discount should be equal to the one penny a stamp increase. And it would be desirable if the numbers of books of stamps available were sufficient to meet an individual's reasonable needs and avoid rationing at the counter. I should be surprised if this could be achieved with less than 400-500 million discounted stamps.

I am sending a copy of this letter to other members of E(NI) and to Sir Robert Armstrong.

Norman Tebbit
NORMAN TEBBIT

POST AND TELG : future
of the Post Office 1710





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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Norman Tebbit MP
Chancellor of the Duchy
of Lancaster
Cabinet Office
Whitehall
LONDON
SW1A 2AS

NBPM

29 August 1986

Dear Norman

POST OFFICE TARGETS AND TARIFFS

Thank you for your letter of 1 August.

I note your concern about the timing of the tariff increases that the Post Office has proposed and your feeling that other options might have been available had comments been sought from colleagues earlier.

You contrast the prospect of restoration on 20 October of the second class tariff to its September 1984 level of 13p with the reduction to 12p last November which you say was timed to reduce the cost of the Christmas post. I, of course, recall that you attached importance to last year's reduction being implemented before Christmas stamps were issued in mid-November but my understanding is that an equal, if not greater, influence on timing was the need for a reduction to be made around the beginning of November so that, other things being equal, the maximum benefit of prospective "surplus" profit of around £20 million could be passed on to the Post Office's customers before the end of the financial year.

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POST TELECOM
RUC
PT70

The position this year was that in early April Sir Ronald Dearing proposed a package of tariff changes including 1p on the first class tariff and restoration of the 1p reduction on the second class tariff in early September. My officials told the Post Office that in advance of agreement on profit and RUC targets a substantive view could not be taken on whether such increases were justified but they looked a little premature. As explained in my letter to John MacGregor, negotiations on targets took much longer than had been hoped and it was not until the last few days of July that agreement on an acceptable package was reached. Part of the agreement was reluctant acceptance by the Post Office that on the basis of the numbers underlying the agreed targets the increases in 1st and 2nd class tariff could be deferred until 20 October. Sir Ronald Dearing was adamant that the increases could not be further deferred and my officials accepted that delay beyond 20 October could not be justified without reopening negotiation on the targets and, in particular, fundamentally re-examining the underlying numbers. It is by no means clear whether such re-examination would have produced any justification for delay beyond 20 October, let alone Christmas, but it would certainly have caused other problems because the printing timetable for Christmas stamps required a decision by the end of July on the prices to be printed on the stamps.

I agree with you that it is important that the Post Office makes discount stamps available in the pre-Christmas period and it is committed to doing so. Decisions on the precise discount arrangements will not be taken until the Post Office has received and considered comments from the Post Office Users' National Council on the whole range of tariff changes that it has proposed. However the Post Office is in no doubt of the importance we attach to the arrangements being as extensive as possible. Moreover my officials have emphasised to the Post Office that should its performance be better than assumed in the numbers on which the targets have been based, the Post Office should, at the earliest opportunity, seek to pass on the benefit to postal users through further discount arrangements.

John
Geoffrey Pattie

GEOFFREY PATTIE

AU2/AU2ACG



Chancellor of the Duchy of Lancaster

CABINET OFFICE
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

1st August 1986

Geoffrey Pattie Esq MP
Minister of State for
Information Technology
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

NOM

D. Geoffrey,

POST OFFICE TARGETS AND TARIFFS

I have seen a copy of your letter of 29 July to John MacGregor. I have also seen John's reply.

Your office has been informed that I had reservations concerning the timing of the proposed postal tariff increases. In particular, the announcement of an increase on 20 October will contrast with the penny reduction in the second-class post in the autumn of last year. This was timed so as to reduce the cost of the Christmas post.

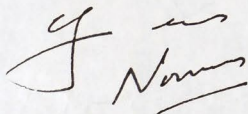
I understand that the Post Office felt obliged to put the tariff proposals to the POUNC in early July, but that your officials specifically reserved Ministers' views. It was in the course of later negotiation that the proposed implementation date was moved from 4 to 20 October.

I think it is regrettable that comments on the tariff proposals were not sought from colleagues earlier. For my part, I think it very unfortunate that the tariff increase should come immediately ahead of the Christmas post in this way. Had time been allowed for comment, other options may have been available to be considered.

I now accept that the tariff increase should go ahead as proposed, but I would urge that the Post Office should make available an extensive supply of discounted books of second-class stamps for the pre-Christmas period. I understand that this is under consideration at present. The extent of the proposed concession seems to me, however, still to be insufficient;

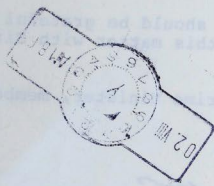
I would wish to see it greatly extended. I should be grateful for your early assurance that you have pressed this matter with Sir Ron Dearing.

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

A handwritten signature in dark ink, appearing to read 'Norman Tebbit'. The signature is written in a cursive style with a large initial 'N' and a long horizontal stroke at the end.

NORMAN TEBBIT

Future of P.O. : Post &
TEL. P+10.



Handwritten scribbles, possibly initials or a signature.

NOV 27 1961

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CCSG

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
Minister of State for Industry and
Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

N 987

30 July 1986

Dear Geoff,

POST OFFICE TARGETS AND TARIFFS

Thank you for your letter of 29 July about the Post Office's financial and efficiency targets and their proposals for tariff changes later this year.

ATTACHED

First, I should like to emphasise that I, too find it very unsatisfactory that the Post Office has not been set financial and efficiency targets four months into the financial year. I accept the reasons you give for the delay, but I must say that this does not reflect well on the Post Office or on the extent of our financial control over them, and I hope we will see an improvement in future. I also have to say that this delay contrasts most markedly with the 24 hours deadline you set me to respond to your letter, which I think you will agree is unreasonable in any circumstances. You will understand why I respond under these time pressures with the greatest reluctance and I must ask that this is not repeated.

In order to avoid further delays, I am therefore reluctantly prepared to agree now to your proposals so that they can be announced on Thursday, 31 July by way of a Press Notice. I gather that this will be followed up with an arranged PQ in the autumn. My reluctance stems also from the fact that disaggregated financial targets for 1987-88 and 1988-89, and disaggregated efficiency targets for 1986-87, are not to be published. This runs counter to the agreement we reached in correspondence in February this year, that disaggregated financial and efficiency targets for the Post Office should be announced. However, I acknowledge that this reflects uncertainties connected with the figures for the separate businesses, and your proposals involve some compromise by the Post Office as well as ourselves. I note that you intend to

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announce disaggregated financial targets for 1987-88 before the end of March 1987. We should aim to announce targets for 1988-89 at the same time or, failing that, as soon as possible thereafter.

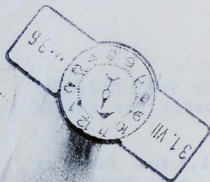
I should be grateful if the Press Notice could be amended to make clear that the 1.5 per cent reduction in real unit costs of the postal business in 1986-87 is a minimum "floor" rather than simply a target; I understand this has been agreed between our officials.

Finally, I am prepared to agree to the tariff proposals described in your letter.

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

Yours cv,
JH

JOHN MacGREGOR



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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 2AG

NSP

29 July 1986

Dear Chief Secretary,

POST OFFICE TARGETS AND TARIFFS

In February we agreed to endorse the outcome of the review of the profit target that our officials had undertaken with the Post Office. This was a return of 3.25 per cent on turnover for the postal business overall. We also agreed on the importance of having announced financial and efficiency targets for both Mails and Counters before the start of 1986/87.

I regret that it did not prove possible to keep to that timetable. A major reason has been the reorganisation of the Post Office's corporate structure that Sir Ronald Dearing announced in March. The division of the Mails business into separate Letters and Parcels businesses has not only complicated the discussions that our officials undertook with the Post Office but compounded the uncertainty that exists on disaggregated figures in advance of the complete separation of Mails and Counters accounts for 1986/87. Moreover, doubts about the robustness of separate information for each of the three businesses (Letters, Parcels and Counters) not only resurrected Post Office concern about separate targets but, in practical terms, if not in principle, lends it some credence at least for the time being.

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BOARD OF TRADE
BICENTENARY



In the light of our officials' discussions with the Post Office, I propose that we agree the profit and efficiency targets for the three years 1986/87-1988/89 set out in Appendix A to this letter as those that the Post Office should seek to achieve and against which we should monitor its performance. But I suggest that for this period, during which the Post Office will be developing but will not have in place the financial and management accounting systems to produce sufficiently reliable figures for each of the three businesses, we should announce a more restricted range of targets.

On profit we should announce the 3.25 per cent target for the postal business overall for each of the three years with returns from the individual businesses to contribute towards this target in 1986/87 of 3 per cent for Letters, 6 per cent for Parcels and 1.3 per cent for Counters. It will be my intention to announce before the end of March next year targets for each of the businesses for 1987/88 and, possibly, 1988/89. Unless the Post Office is able to persuade us otherwise these would be the relevant figures in Appendix A.

On real unit costs we should announce a target for the postal business to reduce its real unit costs by 5.5 per cent by the end of 1988/89 compared with 1985/86, with a reduction of 1.5 per cent in 1986/87. For the three businesses the target contributions over the same three year period would be real unit cost reductions for Letters of 6 per cent, Parcels 5.4 per cent and Counters 3.7 per cent. These reductions will be calculated as set out in the note attached to Appendix A with no excluded expenditure (apart from interest, consistent with the basis for the profit target) or special items, save for the possibility of exceptional items as defined in the note (that is to say: subject to DTI, Treasury and Post Office agreement, very significant changes not envisaged in setting the targets).

You will be aware that at the beginning of this month the Post Office submitted proposals to POUNC for a package of tariff changes including restoration of the 1p reduction on the second class tariff (to take it back to 13p) and 1p on the first class tariff (to take it to 18p). Sir Ronald Dearing had consulted my

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officials about putting the proposals to POUNC (with the usual announcement that he was doing so) which he felt he had to do at the beginning of this month to allow POUNC the usual three months notice before the proposed implementation date of 4 October, which he said his numbers indicated was the latest date possible. My officials agreed that the Post Office should inform POUNC but on the strict understanding that Ministers had not taken any view on the tariff proposals and would not be able to do so in advance of agreement on targets.

Our officials have discussed the tariff proposals, and in particular their timing, with the Post Office and on the basis of the targets I am proposing I think that we should accept the changes proposed by the Post Office but with implementation of the increases on first and second class letter tariffs deferred until 20 October.

At Appendix B I attach the draft of a Press Notice announcing the targets that I would like to issue by Thursday morning, 31 July at the latest, shortly after writing to Sir Ronald Dearing formally notifying him about the targets and our view of his tariff proposals. I should be grateful for your urgent confirmation that you are content.

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

Yours sincerely,

Timothy Abraham

GEOFFREY PATTIE

*(approved by the Minister
and signed in his absence)*

Post Office Profit and RUC Targets 1986/87-1988/89

Profit targets - return on turnover, before net interest
and tax on the current cost accounting
basis

	1986/87	1987/88	1988/89
	%	%	%
Postal business	3.25	3.25	3.25
- excludes interbusiness trading			
Letters	3.0	2.8	2.8
Parcels	6.0	6.7	6.8
Counters	1.3	1.2	1.2
- includes interbusiness trading			

RUC targets

	1986/87	1987/88	1988/89	Cumulative Total
	%	%	%	%
Postal business	(1.5)	(2.0)	(2.0)	(5.5)
Letters	(1.8)	(2.1)	(2.1)	(6.0)
Parcels	(1.8)	(1.8)	(1.8)	(5.4)
Counters	(0.6)	(1.2)	(2.0)	(3.7)

POSTAL BUSINESS EFFICIENCY TARGETS

1. Nature of the targets

There will be separate real unit cost targets for each of the Letters, Parcels and Counters businesses and for the postal business as a whole.

2. Calculation of the target and performance

The target and performance will be calculated on the basis of the following formula:

$$\frac{\text{Volume* in base year} \times \text{Costs in target year} \times \text{RPI** in base year}}{\text{Volume in target year} \quad \text{Costs in base year} \quad \text{RPI** in target year}}$$

- * Volume in the base year will be income in that year. Volume in the target year will be calculated by adding volume growth to the adjusted base.
- ** RPI is the sum of the index numbers for each of the twelve months.

3. RPI assumptions

The RPI assumptions made in setting these targets were:

1986/87	1987/88	1988/89
3.5%	5.0%	5.5%

4. Base Year and Target Year

The base year will be 1985/86 and the target years will be each of 1986/87, 1987/88 and 1988/89 for the targets for individual years and 1988/89 for the cumulative targets. For neither base nor target years will there be any adjustment save for any agreement within the terms of paragraph 6 below.

5. Coverage

The targets will cover the postal business and the Letters, Parcels and Counters businesses consistent with the coverage of those businesses in the Posts 1986 Strategic Plan.

(i) Except for targets for the postal business as a whole volume and expenditure will include business with other parts of the Post Office Corporation.

(ii) Counters business volume will be measured in Basic Transaction Hours (BTHs).

(iii) All expenditure items will be included where these appear in the profit and loss account before the first profit line is struck. Thus, for example, interest payable and receivable and Corporation tax will be excluded. Depreciation, imbalance charges, security costs, bank charges, VAT, national insurance contributions will be included.

(iv) The effect of accounting changes will be ignored.

6. Exceptional items

It is recognised that, over the life of the targets, there will undoubtedly be circumstances which will arise which will have an impact on performance whether adverse or beneficial. In general, these can be expected to

cancel each other out and there should therefore be no exclusions in respect of such items. However, there may be exceptional occasions when circumstances change in a way which will have a major impact on performance. In those circumstances, it is understood that there will be a case for considering an adjustment to the target or the result of performance against the target but adjustments will not be made unless agreed by the DTI, the Treasury and the Post Office.

7. Quantification

This is set out in the schedule to which this note is attached, together with the profit targets for the same period.

Draft Press NoticePost Office Targets

1. Geoffrey Pattie, the Minister of State for Industry and Information Technology, today announced financial and efficiency targets for the Post Office for the three years 1986/87 to 1988/89.

Mr Pattie said

2. Last year the Post Office moved towards the separation of the Royal Mail and Counters businesses, and earlier this year it announced its decision to divide Royal Mail into two separate businesses, Letters and Parcels. The process of establishing these three businesses and of separating their accounts will not be complete for about another two years. Of necessity this limits the robustness of the available figures, but after consulting the Post Office I have decided that the time is right for separate medium-term targets to be set for the three businesses for the three years 1986-87 to 1988-89. National Girobank is already targeted separately.

3. Last year the Government set the Royal Mail business the performance aim of reducing its real unit costs by 2.2 per cent in 1985-86 compared with 1984-85, and the Counters business was targeted for a reduction of 1.5 per cent compared with 1984-85. In the event, Counters achieved its target and Royal Mail bettered its target by 0.2 per cent. I congratulate the management and work-force of the Post Office on their achievement.

4. Nevertheless, I am confident^t that those employed in the Post Office understand that, in order to protect the future of the businesses, it is essential to retain existing customers and attract new work. Further improvements in efficiency remain the key to maintaining and improving the Post Office's competitiveness. Accordingly I have set the Post Office the target of achieving a reduction of 5.5 per cent in the real unit costs of the postal business at the end of 1988-89, compared with 1985-86, with a 1.5 per cent reduction to be achieved by the end of 1986-87. I have agreed with the Post Office that the component businesses should be set individual targets to reduce real unit costs over the same period as follows:

Letters 6 per cent

Parcels 5.4 per cent

Counters 3.7 per cent

5. As already noted, the lengthy process of separating the accounts of the new businesses raises problems in attempting to set financial objectives. The review that was announced in July last year of the financial objective for Royal Mail and Counters concluded that the appropriate overall objective was a return on turnover of 3.25 per cent, before net interest and tax, on the current cost accounting basis, in each of the years 1986-87 to 1988-89. Although the Post Office has proposed profit targets for each of the three businesses in each of those years there must of necessity be uncertainty about the reliability of the underlying assumptions until further progress has been made with the new information systems. To support the overall target of 3.25 per cent in 1986-87 I have agreed with the Post Office that the three businesses should secure returns in that year (on the same basis as the overall target) as follows:

Letters 3.0 per cent

Parcels 6.0 per cent

Counters 1.3 per cent

It is my intention before the end of March next year to agree with the Post Office and announce target returns for the three businesses for 1987-88.

Letters	3.0 per cent	1954-55
Parcels	6.0 per cent	1954-55
Containers	1.3 per cent	1954-55

The Board of Directors has approved the plan for the year 1954-55. The plan is based on the assumption that the overall objective is to return a net return of 3.25 per cent, before net interest and tax, on the current cost accounting basis, in each of the years 1954-55 to 1956-57. Although the Post Office has set profit targets for each of the three business units in each of those years there must of necessity be some uncertainty about the reliability of the underlying assumptions until further progress has been made in the target areas. To support the overall target of 3.25 per cent in 1954-55 I have agreed with the Post Office that the three businesses should secure returns in that year in the following manner as the overall target as follows:





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

18 July 1986

Miss Catherine Bradley
PS/Secretary of State
Department of Trade & Industry
1 Victoria Street
LONDON SW1H 0ET

Prime Minister 2

DLW

21/7

(You will remember that BT plan to
redeem the Government's preference
shares, taking the Government
package down to just over
41%.)

Dear Catherine

REDEMPTION OF BRITISH TELECOM PREFERENCE SHARES

The Chancellor has seen your Secretary of State's letter of 11 July about a possible redemption of BT preference shares. This raises a number of possibilities; but the Chancellor is sure you are right that whatever is decided must be presented as a BT initiative - which of course it is. arttap

He does not think that we can take this much further forward until we know the considered views of BT's board following their meeting on 22 July. As soon as they have decided their preferred course of action, we can agree a suitable response. But in principle, he is content for BT to proceed in the way they think best.

BF | Meanwhile, it is most important that the Transfer of Functions Order is laid as soon as possible to allow the remaining BT securities held by HM Government to be transferred to the Treasury. I understand that your Department's instructions are now at last with Parliamentary Counsel and the Chancellor would be grateful if you would arrange for the Order to be brought forward as soon as possible.

I am sending a copy of this letter to David Norgrove (No.10).

Yours ever,

Tony

A W KUCZYS
Private Secretary

TRM



Ministry of Trade and Industry
P.O. Box 1000
Freetown

12 July 1981



Ministry of Trade and Industry
P.O. Box 1000
Freetown

Prime Minister
Sir
Freetown

Dear Sir,
I have the pleasure to acknowledge the receipt of your letter of 11 July 1981 regarding the proposed transfer of the assets of the National Bank of Sierra Leone to the Government of Sierra Leone.

MINISTRY OF TRADE AND INDUSTRY

The Chancellor has seen your Secretary of State's letter of 4 July 1981 regarding the proposed transfer of the assets of the National Bank of Sierra Leone to the Government of Sierra Leone. This raises a number of questions, but the Chancellor is sure you are right that whatever is decided must be presented as a Bill to Parliament - which of course it is.

We do not wish that we can take this matter further forward until we have the considered views of the Board following their meeting on 12 July. As soon as they have decided their position on the proposal, we can issue a suitable response. We are sorry that we cannot give you a definite answer at this time.

It is most important that the transfer of functions to the Government be done as soon as possible to allow the remaining assets of the Bank to be transferred to the Treasury. I understand that your Government's intention is not to act with Parliament, Council and the Chancellor would be pleased if you would arrange for the Order to be passed forward as soon as possible.

I am sending a copy of this letter to David Wopereh (No. 101).

Yours faithfully,
A. H. M. J. J.
Private Secretary

SECRET

17



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

NSPN
18 July 1986

Dear Paul

NATIONAL GIROBANK

Thank you for your letter of 2 July in reply to mine of 16 June.

I fully agree that we should not undertake anything which is likely to provoke the sort of difficulties which have led us to postpone Girobank privatisation. However I think that it would be wrong for us to assume that there will be only one option for privatisation when the time comes. Therefore, as I said in my letter of 16 June it might be sensible for us to discuss radical options before the next Election. I am sure we should not let the risks to which you have drawn attention preclude all possibility of inter-departmental discussion (conducted with due care and confidentiality).

I am, of course, content for you to tell Sir Ron Dearing and Malcolm Williamson about the postponement decision, with the qualification above. We are also content for the Post Office objectives to be published as you propose.

I am copying this letter to the recipients of yours.

*Yours
Norman*

NORMAN LAMONT

SECRET



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215 5147

(Switchboard) 01-215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon John Moore MP
Secretary of State for
Transport
Department of Transport
2 Marsham Street
LONDON
SW1 3EB

999
NBBN

18th July 1986

Dear Secretary of State

REVIEW OF PUBLIC UTILITIES STREET WORKS ACT: PROPOSED ACTION

I am responding to your letter of 11 July to Willie Whitelaw. As you know, this Department has an important interest in the matter since it licenses and sponsors all public telecommunications operators (PTOs), in particular British Telecom.

It is clear that, taken as a whole, Professor Horne's report has been generally welcomed. My understanding is that British Telecom and the other PTOs are strongly in favour of taking on full responsibility for reinstatements, instead of the present rather confused arrangements. I thus endorse the legislative amendments you envisage to give effect to this and to the various other detailed changes proposed by Professor Horne. You will appreciate that the changes will have implications for the Telecommunications Act 1984 and the various licences which have been issued under that Act to PTOs, and I would therefore be grateful if officials in this Department were kept fully in the picture as matters move forward.

will request if required

JY4/JY4AAC

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19 **86**
BOARD OF TRADE
BICENTENARY



Turning to the difficult question of who pays for the diversion of apparatus because of highway improvement schemes, I agree with you that what is needed is a code of practice between operators and local authorities. If this can be achieved, it will bring real benefit to all the parties. Certainly, I understand that PTOs are in favour of such a course. As for what is done in the event that a code of practice cannot be agreed, I would not at this point wish to give a firm view on your proposition that 35% would be a reasonable proportion of costs to impose upon utilities. If after a year a code of practice has not been agreed, I think it would be right for us to have another look at this particular issue, in the light of the negotiations which had taken place, before reaching a final view on a particular figure, or, indeed, on any figure at all.

I would therefore prefer the draft answer to leave matters slightly more open. Might I suggest saying in the last part of paragraph 4 of your draft answer, in place of your wording, the clause "... the Government might need to consider bringing forward a cost sharing solution ...", with a similar change in wording in the detailed response on Recommendation 67. This would keep options open and prevent local authorities from entering into negotiations on a code of practice in the knowledge that, if one were not agreed, the Government intended anyway to impose a solution probably of more benefit to them than current arrangements.

I am copying this letter to members of H Committee, to Peter Walker and to Sir Robert Armstrong.

Yours sincerely,

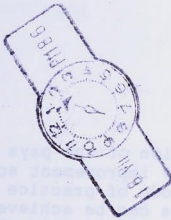
Timothy Abraham

PP

GEOFFREY PATTIE

*(Approved by the Minister
and signed in his absence)*

JY4/JY4AAC



Turning to the Illinois question... of operations because of higher... you that what is needed is a... and local authorities. It... will bring... I understand that... as for what is done in the... I would not... of practice cannot be agreed. I would not... to give a firm view on your proposition that... would be a reasonable proportion of costs to impose upon... It either a code of practice has not been... I think it would be right for us to have another look at... in the light of the negotiations which had... before reaching a final view on a particular figure... on my figure at all.

I would therefore prefer the draft... slightly more open. Right I suggest... paragraph 4 of your draft... The... to consider bringing... the Government might want to... forward a more... with a similar change... in the detailed response of... would keep options open and prevent... into negotiations on a code of practice in the... the Government intended anyway to... of more benefit to them than... arrangements.

I am copying this letter to members of H Committee, to Peter Walker and to Sir Robert Winston.

Yours sincerely,

Timothy Robinson

DEPUTY MINISTER

(Approved by the Minister)

and signed in his absence



10 DOWNING STREET

Prime Minister²

This will need to be handled carefully ("Govt. getting round assurances; desperate for receipts etc...") but BT made the approach and it is good news.

The redemption will reduce the Government's holding in BT to just over 41%.

DW
11/7.



JUB41
Secretary of State for Trade and Industry

16
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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11 July 1986

SECRET

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

Dear Nigel

REDEMPTION OF BRITISH TELECOM PREFERENCE SHARES

BT has just informed my Department of its intention to redeem the preference shares which the Government has held in the company since privatisation in 1984. As you know, these amount to £750 million, at a coupon of 11.95%, and BT has the right to redeem all or any of them at par subject to three months notice.

BT's approach has been informal. It has apparently been thinking of redemption for some time and any link with current speculation about proceeds from privatisation is purely coincidental. I understand that the BT Board took a decision in principle on 24 June, and will consider detailed proposals for financing the redemption on 22 July. BT will probably give notice soon after that of redemption of a first tranche of £200 million, with the rest to be redeemed over a twelve-month period. BT's motives appear to be straightforward: it has considerable cash reserves at present, and is well able to raise new loans at lower cost.

Although BT has indicated its desire to redeem the shares in a phased programme over twelve months, BT's position on this does not appear to be rigid. The indications are that it is prepared to be as accommodating as possible to the Government's wishes, provided this is not contrary to BT's own interests. Our considered views must obviously be with the company in advance of the Board meeting on 22 July.

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BOARD OF TRADE
BICENTENARY



SECRET

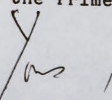
Clearly the issues to which this gives rise are principally fiscal, and for you to consider. More generally, there is bound to be criticism if BT is seen to be using its reserves to "pay back" the Government rather than, say, cut telephone prices. This will have to be deflected on the grounds that BT is free to make its own commercial decisions, and that refinancing high-interest debt when rates have fallen makes good sense for any company. There is also, it goes without saying, a very important political angle, and in this regard I can see the presentational advantages of BT taking the initiative to redeem the shares rather than it emanating from our side.

We may also need to consider the implications of a situation where, in your considered view, it would be best for the entire redemption to take place within this financial year, but where BT is not prepared to shorten its proposed twelve-month timetable. It is, of course, open to us to sell the preference shares in the open market: there is no date restriction in the prospectus on this (a fact of which commentators seem generally unaware). Before doing that, however, we would, under the terms of the prospectus, have to take into account the company's views, and the company would have first option to redeem at par. A tricky legal issue would arise as to whether redemption phased over a longer period than you felt desirable met the terms of BT's right of first option. I very much hope the situation does not arise, and that agreement can be reached in the same spirit as that in which BT has approached us in the first place, but as a contingency my officials and yours need to ensure that we have clear legal advice on the prospectus obligations. I understand that this work is already in hand.

A final word is needed on publicity. An announcement of the redemption will obviously have to be made in due course, but for the moment BT is naturally anxious to restrict knowledge of its proposal as far as possible in order not to prejudice the cost of its fund-raising in the City, and to avoid any further possible speculation on its share price, about which it is rather jittery at the moment. I suggest we leave the question of publicity to one side for the moment, and consider it again when we are clearer about the commitments BT is prepared to make about its intention to redeem all the shares.

I should be glad for your views on BT's proposal as urgently as possible. In the light of these my officials and yours will no doubt need to have further informal discussions with BT, and BT, I understand, stands ready for these at any time.

I am copying this letter to the Prime Minister.


PAUL CHANNON

17
19
86
BOARD OF TRADE
BICENTENARY

11 APR 58
SECRET
11 APR 58



Clearly the issues to which this gives rise are...
I would be glad for your views on BT's proposal as originally...
possible. In the light of these my officials and yours will...
need to have further informal discussions with BT, and BT...
I understand, stands ready for these at any time.

It may also need to consider the implications of a situation...
where, in your considered view, it would be best for the entire...
respective to take place within this financial year, but where BT...
is not prepared to exercise the proposed twelve-month flexibility...
at all, of course. Can we do all the preference shares in the...
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need to have further informal discussions with BT, and BT...
I understand, stands ready for these at any time.

I am copying this letter to the Prime Minister.

TOP SECRET

PAUL CHAMBERLAIN

15



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

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GTN 215
(Switchboard) 01-215 7877

1977
Secretary of State for Trade and Industry

2 July 1986

SECRET

The Rt Hon Norman Lamont MP
Financial Secretary to
the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Norman.

NBON

NATIONAL GIROBANK

Thank you for your letter of 16 June.

I am grateful for your confirmation that, like Norman Tebbit and Norman Fowler (whose letter of 17 June to me you will have seen), you agree that while privatisation is, in principle, the right course for Girobank it should be deferred until after the next General Election.

I note what you say about not adopting a passive approach towards preparing options for the future. But as you know, there are limits on what we can actively pursue in advance of any public announcement of a decision to privatise Girobank. It would be most unfortunate if, having decided to defer privatisation until after the Election, we were to engage in further work whose existence came to the attention of the union. They would interpret it as confirmation of their view that the Post Office's reorganisation is motivated by privatisation policy, and we would end up with the very difficulties that we have agreed we should seek to avoid by not privatising Girobank now.

17
19 **86**
BOARD OF TRADE
BICENTENARY



SECRET

That is not to say that no progress can be made. The contractual relationship between Girobank and the other main Post Office businesses, particularly Counters and Letters, will in any event be clarified as an integral part of the current reorganisation of the Post Office's Corporate structure. In addition Girobank is continuing gradually to reduce its dependence on Bootle with the expansion of its regional offices, and the question of the bank's contingency arrangements will be one of the issues that will need to be addressed in the context of consideration of Girobank's 1986 Business Plan.

I shall now inform Sir Ronald Dearing and Girobank's Managing Director, Malcolm Williamson, that although it is our intention to privatise Girobank, that will not be done until after the Election. As I explained in my letter of 13 May I also intend to put in hand arrangements for publication of the objectives for the Post Office that I sent to Nigel Lawson on 28 February (as amended by my Private Secretary's letter of 14 March). As you did not mention the question in your letter I assume you are content.

I am copying this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and Sir Robert Armstrong.

*Yours,
Paul*
PAUL CHANNON

17
1986
BOARD OF TRADE
BICENTENARY



From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home
Department
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

Price Munka ⑥
For information. MEM 1/7

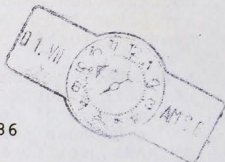
DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5147
GTN 215 5147

(Switchboard) 01-215 7877



27 June 1986

Dear Douglas

I am writing to you about the relatively minor but not unimportant matter of charges made by the Post Office for displaying posters in post offices.

I understand that on a number of occasions recently Government departments have unsuccessfully sought to persuade the Post Office to display posters free of charge. Although I can understand that colleagues may find it disappointing that the Post Office is unable to offer a free service I hope that they will appreciate why the Corporation is reluctant to do so.

You may be aware of the problems that currently face the Post Office Counters business. It is a high fixed cost operation, critically dependent on volume for viability. Its clients, including Government departments, see it as expensive and, under pressure themselves to reduce costs, are increasingly looking at competitive alternatives. We as a Government are committed to the maintenance of an adequate post office network and are under constant pressure from public opinion to remain so. We are also convinced of the need for the Counters business to be run on a sound commercial basis without cross-subsidisation from Mails or other parts of the Corporation. This is the policy that the Counters business follows, and charging for displaying posters is one manifestation of its commercial approach.

Whilst a special case can always be made for any number of worthy causes, it is important that the Post Office should use its resources, including display space, to the full. To provide for professional displays, money has been spent on equipping offices

JE5/JE5ACK

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BOARD OF TRADE
BICENTENARY



to carry out the service effectively. The Chairman of the Post Office, Sir Ronald Dearing, wishes (rightly in my view) to see some return on this investment. Although the sums of money involved are not very large, in the present situation of the Counters business any additional revenue is of importance and if any potential revenue is forgone the Post Office's prices to agency clients are that much higher.

I naturally appreciate the need for departments to make the most of their budgets for public awareness campaigns and the attractions of free display of posters in post offices. However, it is because post offices, with their number and geographical spread, provide a ready means of reaching a large proportion of the population that display space in them represents a commercial opportunity for the Counters business which it quite rightly seeks to maximise.

If you or your officials need to approach the Post Office for this kind of service, I am sure that you will find its staff only too willing to help. But I hope that any approaches will be made in the expectation that the response from the Counters business will be a commercial one and in the knowledge why this is so.

I am copying this letter to all Members of the Cabinet and should be grateful for their cooperation in distributing it to Ministerial colleagues in their Departments.

A handwritten signature in dark ink, appearing to read 'G. Pattie', with a horizontal line underneath.

GEOFFREY PATTIE

JE5/JE5ACK

SECRET



2
CCSG
14

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

NSBN

17 June 1986

NATIONAL GIROBANK

Thank you for copying me your letter of 13 May to Nigel Lawson. I have also seen copies of replies from Norman Tebbit and Norman Lamont.

I fully support Norman Tebbit's comments about the advantages of privatising Girobank. However, I see the difficulties of early privatisation and agree that this should be deferred until after the next General Election.

As your letter recognises, there are important interactions with the social security system which need to be carefully worked through, whatever timetable we adopt for privatisation. Rural Post Offices depend heavily for their viability on the payment of social security benefits over the counter. The effects of a shift to payment of benefits by automated credit transfer are to some extent mitigated if beneficiaries accept payment into Girobank accounts. Proposals for the future of Girobank which seemed likely to involve any movement of business away from Post Office counters would be strongly opposed by our supporters and there would be opportunity for political mischief through scare stories which could not readily be refuted.

I am copying this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Patrick Mayhew and to Sir Robert Armstrong.

Your

NORMAN FOWLER

SECRET



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
 Secretary of State for Trade
 and Industry
 Department of Trade and Industry
 1 Victoria Street
 LONDON
 SW1H 0ET

WBN

16 June 1986

Dear Paul

NATIONAL GIROBANK

Thank you for your letter of 13 May to Nigel Lawson. I have also seen Norman Tebbit's letter of 21 May. *at top*

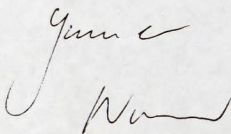
I was disappointed to see that you do not share the view expressed in Leon Brittan's letter of 21 January, written on the basis of Hambros' report, that we should aim to privatise Girobank this side of the General Election. There is no good reason why Girobank's functions need to be carried out in the public sector. But I accept that the industrial relations risks have increased and that if the Post Office is to face challenges on this front, management will do better if the central issue of disagreement for the time being is labour costs and productivity.

However, I strongly take the view that we should not adopt a passive approach in the next year or so towards preparing privatisation options for the future. One element in this must be early progress towards clarifying the contractual relationships between Girobank and PO Counters and Mails in ways which will sharpen incentives for efficiency now, while at the same time laying a better foundation for privatisation in the future. I imagine a second element should be personnel management action to reduce Girobank's vulnerability to industrial trouble led by the Militant Tendency. Thirdly, I should like to return at a later date to the question of what preparatory studies of more radical options officials could usefully undertake. It might well be sensible for us to take a further look at these issues before the next Election.

SECRET

You invite colleagues to note that if Girobank is not to be privatised then there will be additional capital bids to be considered later this year. As you say, we should not prejudge the IFR discussions. But I know you realise that any presumption that this postponement of Girobank's privatisation paves the way automatically for agreement to additional external resources would be quite mistaken (Girobank's draft business plan already envisages 7%pa expansion of its balance sheet to 1990-91 without the £20m capital injection to which you refer, which is designed to support a further £200m increase in lending).

I am copying this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Lamont', written in a cursive style.

NORMAN LAMONT

SECRET

SECRET

You invite colleagues to note that if...
involved then there will be additional...
considered later this year. As you say, we...
the 199 discussion. But I know you realize...
that this post-ponement of Girshick's...
way automatically for agreement to additional...
would be done within Girshick's draft...
expansion of its balance sheet...
the type capital injection in which you...
to support a further 1999 increase in...
I am copying this letter to the...
of Bill, Willie Wiselaw, John Hillen,
Patrick Hagan and Sir Robert Armstrong.



Handwritten signature

NORMAN LARNEY

SECRET



CONFIDENTIAL

JU447

PRIME MINISTER

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DGN
+16

ms

POST OFFICE INDUSTRIAL RELATIONS

As announced publicly, the Post Office and the Union of Communication Workers (UCW) reached agreement last night on a settlement of the dispute about revised working practices. The agreement is subject to formal ratification by the UCW executive, which is meeting today. All branches have been instructed to organise an immediate return to work by their members.

2 The key to the agreement was the facility for staff at Leeds (and in due course the other offices at which the new arrangements will be implemented) to convert bonus payments into additional rest breaks totalling up to 1½ hours a week. The Post Office has stipulated the times when those breaks might be taken, but it will be up to the local UCW branches whether or not to opt for the breaks. The full cost of the breaks, including overheads, will be charged against the bonus, and this concession will therefore be wholly self-financing.

3 For its part the Post Office will accept strikers back unconditionally. However, it will seek to ensure that staff who

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19 **86**
BOARD OF TRADE
BICENTENARY



have been on strike and have lost pay as a result do not make up their losses fully by overtime working to reduce the backlog of mail. At Leeds, therefore, casual staff taken on during the dispute will continue to be employed. Most of the backlog should be cleared by the end of next week. By then local negotiations should have settled the details of the revised duties, subject to ratification by the UCW branch. Until yesterday the UCW was insisting on a return to the original working arrangements at Leeds. As a result of the agreement reached last night, the new duties will be worked from 23 June.

4 The Post Office will soon be accepting mail again in the areas affected and hopes that services will be back to normal within a matter of days, though it will take longer at Leeds where the dispute has lasted longest and the build-up of mail has been greatest.

5 Provided that union members accept the instructions of their Executive - which is not certain: much of this week's action has been unofficial - this particular dispute is now over and the immediate threat of a national postal strike has been lifted. However, the annual pay round has yet to be settled. The Post Office discussed the matter briefly with the UCW yesterday and negotiations will resume shortly, probably tomorrow, following

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the union's rejection of the offer of 5.1 per cent on paybill.

In addition, the UCW remains hostile to the Post Office's reorganisation plans. Either of these issues could give rise to renewed conflict.

6 I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

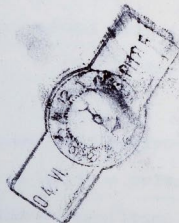
4 June 1986

Department of Trade & Industry

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BOARD OF TRADE
BICENTENARY

I am copying this minute to Cabinet colleagues
Robert Armstrong.

P.C.



PAUL CHANNON

7 June 1988

Department of Trade & Industry

CONFIDENTIAL

P 02080

Prime Minister 2

From: J B UNWIN
3 June 1986

MR NORGROVE

DS
3/6.

c PS/Home Secretary

CONTINGENCY PLANS FOR A POSTAL STRIKE

I promised to let you have a short note on this subject for the Prime Minister.

2. As you appreciate, the detailed plans for alleviating the effects of a postal strike are set out in the Post Office chapter (pages P1-12) in Section I of the Cabinet Office Civil Emergencies Book. There is no specific role for the Civil Contingencies Unit (CCU) in this. The Post Office management have always rejected the possibility of using servicemen or volunteers to move mail, in view of the risks of escalating the dispute (eg to Telecommunications and other services) and of long term damage to Post Office industrial relations. However, we are keeping in close touch with departments, and are today circulating on the CCU net details of departmental arrangements for moving essential Government mail, in order to achieve economy of effort by sharing delivery facilities where practicable. If it should prove necessary for the CCU to meet to ensure that such arrangements work efficiently, I shall arrange it.

3. The Post Office has its own contingency plans for coping with a strike in one or more of its three constituent businesses, Royal Mail, Post Office Counters and National Girobank. These are summarised in the Chapter of the Emergencies Book referred to above and some precautionary measures (eg sealing posting boxes) have already been put into effect in certain areas. The current direct strike threat is to Royal Mail Services. The Union of Communication Workers (UCW) represents some 75% of employees in Royal Mail and Post Office Counters, but only 3.5% in National Girobank. There must be a risk, therefore, of any strike spreading to the Counter Service - which would affect Crown Post Offices but hopefully not sub-post offices

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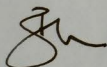
(sub-postmasters are not Post Office employees and did not join in the last national strike in 1971). National Girobank relies heavily on Royal Mail and Post Office Counter Services for the conduct of much of its business and would be vulnerable to strike action in those businesses. But this would be less serious and it is expected that much of the personal banking service could be maintained through the sub-post offices network.

4. Government departments have individual contingency plans for conducting essential business with the public, as well as internally. We have checked with those most important from a public point of view (particularly DHSS and Department of Employment) and have been informed that their plans are ready, should a strike occur, to ensure the continuing payment of pensions and allowances, the issue of licences and conduct of National Girobank counter business.

5. If a strike does occur, the effects ought to be less disruptive than the abortive 6 weeks strike in 1971. The development of information technology has increased the range of options for text transmission and there are now more alternative ways of moving correspondence physically around the country by motor-cycle, van and air. As you know, under Section 69 of the British Telecommunications Act 1981 the Secretary of State for Trade and Industry may, after consultation with the Post Office, suspend in whole or in part the Post Office monopoly for carrying mail, and as an act of policy this has already been done in the case of items over £1 in value. I understand that Mr Channon has not yet decided whether it would be appropriate to suspend the monopoly more widely but, if a strike occurs, he will be ready to make a recommendation in the light of his judgement of the effects of suspension on other Post Office employees and on sub-postmasters. He should be minuting to the Prime Minister shortly on this, and on latest developments on the strike threat. In the meantime, the threat of suspension of the monopoly, and the attendant risks to future post office business and jobs, appears to be concentrating the minds of the unions (see, for example, the front page of today's Guardian), but we shall have to await the outcome of this morning's resumed talks.

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6. In sum, depending on the amount of support a strike received from other unions, it should be possible, at a price, to maintain essential business, commercial and public sector services, although problems could be more severe in particular areas. We shall monitor developments closely.



J B UNWIN

Cabinet Office



Secretary of State for Trade and Industry

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cc BG

3 June 1986

D Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

NBM

Dear David,

POST OFFICE INDUSTRIAL RELATIONS

I attach a note giving background information on the current dispute at the Post Office, as promised in my Secretary of State's minute circulated this morning.

Copies go to the Private Secretaries of Cabinet members and to Sir Robert Armstrong.

Yours sincerely,

JOHN MOGG
Private Secretary

DW1BKW



CONFIDENTIAL

JU437

Post Office Industrial Relations: Position at Noon 3 June 1986

Work measurement and manpower allocations

1 Attached to this note is one from the Post Office that explains the background to the measures that it has introduced at Leeds and intends to introduce progressively to all Mechanised Letter Offices (MLO). As indicated in the note, the changes are long overdue and it is most important for the business in the longer term that they are introduced without further delay.

2 Following a 2 : 1 vote in favour of industrial action, staff at Leeds escalated action from an unofficial overtime ban to an official 24-hour strike on 28 May. Staff at Liverpool, Sheffield, Paddington (Western District Office - WDO) and Bradford undertook unofficial 24-hour strikes on 28 May in protest at the Post Office's action at Leeds.

3 Liverpool and WDO returned on 29 May and the South Eastern District office in London returned after a 24-hour strike on 30 May in protest at the diversion of mail from WDO. But Bradford and Sheffield have stayed out and on Friday 30 May and Monday 2 June were joined by a further 11 offices in South and West Yorkshire and a number of offices in Lancashire. Most of the Yorkshire offices have walked out because of the suspension of staff who have refused to cross picket lines at Leeds railway station. With the York office coming out yesterday the Post Office now has no main distribution office working in Yorkshire.

4 On Friday 30 May the UCW unsuccessfully sought an injunction in the High Court to prevent the Post Office insisting that staff at Leeds sign a declaration that they will abide by their contracts of employment before being allowed to return to work. It is not thought that the UCW will appeal but the union is understood to be taking legal advice on whether its members should seek damages from the Post Office.

5 The Post Office estimates that over 11 million items of mail are now held up (equivalent to nearly 25 per cent of the number of items the Post Office handles nationally each day) and some 8 per cent of the country's 23 million delivery points are now without a mails service. There is a risk of further escalation when customers holding 2 million of the 11 million blocked items take their mail to alternatives to the strike-bound offices they usually use. In addition, with no main distribution office working in Yorkshire the Post Office has given instructions to offices nationally on special arrangements for handling



Yorkshire-bound items. So far, in most offices this diverted mail has been handled normally. An extra point of risk is at the 11 offices to which the Post Office is planning to extend the Leeds changes (Belfast, Brighton, Cardiff, Derby, Edinburgh, Exeter, Liverpool, Norwich, Romford, Sheffield, and Western District Office in London). Industrial engineers are working at these offices preparing for the changes and there is a risk of staff refusing to co-operate with them. The UCW has started balloting members at these offices on strike action and the results are expected in two or three days. It is also making preparations for a national ballot on pay. The Post Office has sought to keep the issues of pay and revised procedures separate but, in order to increase support for action against the Leeds changes, the union may try to link the issues.

6 The stand that the UCW has adopted is that it is the Post Office that is escalating the dispute by refusing to talk and imposing by executive action unreasonable demands that it cannot secure by negotiation. The Post Office has, however, made clear to the union and staff at Leeds that although it is determined to introduce the changes it is ready to talk with the union without precondition, and will talk even if the staff remain on strike. It has sought to avoid being seen to escalate the dispute but is not prepared to tolerate action by a small number of staff that causes widespread disruption to the postal service at little cost to the UCW and its membership. It will therefore continue to divert mail from strike-bound offices to alternatives, require that it be handled, and suspend staff who refuse. The Post Office's view is that the UCW nationally is to some extent struggling to keep control of the way the dispute is proceeding, in the face of pressure from local militants in certain areas to step up action.

7 Yesterday the UCW accepted the Post Office's invitation to talks. After eight hours the discussions were adjourned until 11.00am today. The Post Office has offered the possibility of local arrangements whereby up to 15 minutes extra rest break could be taken but the cost would be subtracted from individual bonus payments for savings from the changes. The cost of this concession would therefore fall on UCW members, without any additional cost for the Post Office.

Consequences of a national strike

8 The last full national strike by rank and file staff was called in 1971. Inland and overseas mail were halted for over six weeks and counter services at main post offices were seriously curtailed. With the aid of volunteers certain Crown offices were able to open for an hour or two each week for the payment of pensions and allowances; except for the acceptance of letters and parcels, counter services at sub-post offices were unaffected.



9 A full strike by UCW grades would result in a complete cessation of postal services but, provided telephone and telex services continued, the nation could survive for several weeks, albeit with awkward financial and other effects on most businesses and serious effects on those firms (for example in the financial, tourism and mail order sectors) which rely heavily on the post. The private courier companies could provide at least a skeleton service and it is likely that, in the event of a postal strike, new companies would come forward. However, it is not possible to predict to what extent this would make up for the loss of Post Office services, or what the cost to postal users would be. In the event of industrial action within the Post Office which resulted in a cessation or serious decline in the quality of service the Secretary of State could exercise the existing power to remove the letter monopoly either in a local area or nationally, or for a specified period.

10 Apart from a cessation of mail services a full strike of the UCW (which also represents clerical staff in Crown post offices) would give rise to some difficulties in payment of pensions and allowances even though the sub-post office network would continue to operate. Similarly, most other services would continue through the network so long as cash funding and stock were provided. Girobank would be seriously affected. Maintaining social security payments would be a top priority for the Counters business.

Suspension of the letter monopoly

11 Section 69 of the British Telecommunications Act 1981 provides that

"The Secretary of State may, after consultation with the Post Office, by order suspend [the letter monopoly] for such a period and to such extent as may be specified in the order."

This power has been used twice. First by an order made in November 1981 to suspend the monopoly until 2007 in respect of so-called 'time sensitive/valuable mail' defined in the order as mail subject only to a minimum charge for each item of £1. This change opened the way for the growth of the private sector couriers. The second occasion was in June 1984 when there was a risk that industrial action by UCW members would disrupt the distribution of material in connection with the European Assembly elections and Portsmouth South by-election on 14 June. An order was quickly made to suspend the monopoly from 5 to 14 June in respect of candidates' election addresses, poll cards and postal votes. There is no monopoly in respect of parcels or overseas mail.



12 When a national postal strike seemed possible last year in connection with the Post Office's (subsequently successful) efforts to introduce the Mails Business Efficiency deal, Mr Tebbit made clear that suspension of the monopoly is an option that the Government would need to consider if an industrial dispute suspends or seriously damages the letter service. But before deciding to suspend the monopoly the Government would need to take a view about the likely duration and effectiveness of any national strike and whether the monopoly should be lifted for the expected duration of the strike or a longer period. Any decision would also need to balance the benefits of suspension, in permitting a wider range of alternatives to the Post Office's service, and the disbenefits of hardening union attitudes towards the dispute. The draft of an order suspending the monopoly is available and, with the insertion of the appropriate dates, could be made very quickly, probably within 24 hours. It would simply suspend the monopoly without regulating or restricting those who wish to offer letter services.

Other Post Office Industrial Relations Issues

Counters Business Efficiency

13 Following the UCW Annual Conference last month agreement has been reached on a Business Efficiency deal covering Counters and clerical staff, subject to a ballot of members. It is understood that the UCW Executive, which is in favour of the agreement and has had to overcome grass roots opposition, does not intend to hold the ballot for two weeks or so, when it hopes the industrial relations situation is less tense. A result is not expected until the beginning of July at the earliest. Negotiations continue with the Communication Managers Association (CMA) on a counterpart agreement covering the lower to middle ranking white collar grades.

Pay

14 UCW The union rejected an improved offer of 5.1 per cent on paybill (5.5 per cent on rates) that the Post Office made last week. A further meeting is due today (3 June) when the Post Office intends to make clear that, far from increasing its offer, it may have to reconsider what is on the table if the present industrial relations situation continues or deteriorates.

CMA The union has rejected an offer of 4.5 per cent on paybill. A further meeting to discuss pay and Business Efficiency is due tomorrow (4 June).



National Communications Union (NCU) An offer of 4.0 - 4.25 per cent on rates (depending on grade) has been rejected. Further talks are not expected until after the union's conference this week.

Engineering and motor transport

15 By only a narrow margin, a ballot of NCU members supported strike action against efficiency measures that involve up to 2,000 job losses. Following Post Office acceptance of very limited cosmetic changes to the terms that had previously been rejected by the NCU, agreement had now been reached. But the NCU conference has rejected this revised agreement, although a majority voted against immediate industrial action on the issue. The position is now unclear.

Reorganisation

16 The UCU annual conference confirmed opposition to the Post Office's reorganisation of its corporate structure. The union is undertaking a campaign against the changes, stressing its view that these are motivated by the Government's privatisation policy, and has suggested that action might include protest strikes.

Department of Trade & Industry

3 June 1986

THE LEEDS DISPUTE - WHAT IT'S ALL ABOUT

Although the Post Office is highly labour intensive and one of the biggest employers in Britain, it has never had any professionally determined work standards in the sorting office. The sorter has to prove at the end of his training that he can achieve a certain rate of work, but that work rate is not a standard for future use in determining staffing.

The Leeds dispute is about having and using standards for the sorting office.

As part of an agreement reached between the Post Office and the UCW a year ago, work study engineers have been helping us to develop work standards. They began work at Leeds, and are now doing preparatory work in 10 other large offices. From the study at Leeds, which was undertaken by 15-20 professionals recruited from industry and supported by PA Management Consultants Ltd, we have established that the work rate is about 75% of what should be expected in a well managed environment where staff have work incentives. This is low, but in the new arrangements at Leeds we have not proposed an increase in work rates.

Our study has also shown that whereas in a well managed environment, about 85% of the available time should be used, as it were on the job, the Leeds figure was low at 63%. Our proposals involve lifting that to 80%.

Looking at the overall situation therefore, in a well managed environment where the staff are motivated by incentives to perform well an employer should be looking for a work rate of 100, with 85% of time being spent directly working. We are looking for a more modest work rate of 75 with a utilisation factor of 80%.

We think that this slightly less ambitious approach is a good first step and in practical terms is likely to produce more immediate benefit than trying to move in one jump from where we are, to where we wish to be.

Postmen will benefit from a share in any savings achieved, in that they will get 70% of the direct wage savings, with an extra 5% added if the quality of service standards are achieved. By general industrial standards this is a very high share of the savings.

Our assessment is that with implementation of our proposals, the Postmen affected by the new staffing arrangements will get bonuses averaging £20 a week.

The Issue in Dispute

Under internationally respected conventions, all "pure" work rates attract a given relaxation allowance, depending upon the nature of the task. These allowances provide employees with the opportunity to recover from the mental and physical effects of their work.

We have added a relaxation allowance of about 11% to our staffing proposals, or in other words about 4 hours per man per week. This is in addition to the normal meal breaks.

Part of that 11% is to provide for a 20 minute tea break each day. However, in return for accepting the proposed work standards the Union is asking for additional relaxation allowances. The Union claim of an extra half an hour per man, per day in total amounts to some 2½-3 hours per week.

We say that our allowance of 4 hours is reasonable and there is no case for adding another 2½-3 hours to it.

Indeed it could be said that in allowing 11% for relaxation, we have been over-generous. The argument is that an 11% level of relaxation is appropriate for workers operating at a rate of 100. For workers operating at a rate of 75%, less relaxation is needed. But we have not taken that point. Again we have tried to prepare our new staffing proposals on a fair and workable basis and we believe this to be the correct approach.

Why is the Post Office doing this?

The Post Office is at fault for not having introduced work standards very many years ago. One consequence of this is that Management has not had a sound basis for working out proper manning arrangements. Very different unofficial work standards have been adopted from one place to another, and this has led to higher bonuses being earned in some towns than in others for equivalent levels of work. But perhaps most fundamental is the criticism that the Post Office has not had an effective measure of the work rates being achieved in its various offices, and how they relate to a reasonable standard. The evidence available is that work rates in the Post Office have often been well below a good standard, although that is by no means universally true and without question there are parts of the day in any office when the postmen work very well.

The View of Outside Bodies

The Post Office has been criticised again and again for not facing up to its industrial relations needs. The most recent occasion was the report of the Monopolies and Mergers Commission eighteen months ago. The Commission specifically recommended (see Appendix A) the kind of things we are introducing in Leeds. Moreover, it came close to finding that the Post Office Board was running the Post Office contrary to the national interest because it was not pursuing sufficiently

firm policies in industrial relations. There were those, according to the report, that considered the Post Office should have been pursuing more vigorous policies. But the Commission as a whole, came to a view that the Post Office should be given a chance to continue to pursue its policy of trying to secure change through negotiation, and only thereafter obtaining it by executive action.

What the Post Office Has Done Since the MMC Report

The Post Office was on the way towards work measurement well before the MMC made its investigation. It continued the work after the MMC Report and has sought to pursue change through negotiation. When it concluded a business efficiency agreement with the UCW in May of 1985, there was provision for a new approach to the revision of procedures in sorting offices, and it was agreed by both sides that we would aim to have these in operation in all major offices by April 1986 (see Appendix B). That date has now passed and we are now in the process of introducing new procedures into the Leeds office by executive action.

Perhaps again the Post Office is most vulnerable to criticism for having taken so long to reach this point after months of negotiation and to have implemented the new manning arrangements in only one office.

MMC RECOMMENDATIONS

(Letter Post Service - September 1984)

Summary of Conclusions and Recommendations:

Page 175

26. Standard times should be established as a matter of urgency for all major tasks in sorting offices, including manual sorting.
27. Man-hours required should be determined directly from expected levels of traffic by using workload weighting, standard times or in the case of delivery duties, the Operational Research Delivery Model. Assignment of staff to tasks should be at management discretion and as flexible as the situation requires.
28. The management control system in sorting offices should be revised with uniform, fully documented procedures, target levels of performance that are just attainable with the most efficient standard methods and monitoring of performance to allow action to be taken to correct low levels of performance.

The MMC Judgement in the Public Interest

- 13.9 It is against this background that we have to consider the final question put to us - whether the Post Office, in relation to any matters falling within our terms of reference, is pursuing a course of conduct which operates against the public interest.
- 13.10 We believe that the Post Office now largely shares our view of the things which need to be done, and the answer to this final question must depend chiefly on the judgement whether the Post Office is making adequate efforts to do them. The Post Office has told us of its existing plans and current developments, and we have described them in this report. The Post Office's fundamental view is that progress can be maintained, and the desired ends eventually achieved, if it persists in its present endeavours to introduce change with the agreement and co-operation of the unions, while being prepared to take executive action if that proves necessary in the end.
- 13.11 Some of us are not prepared to dissent from the belief of those running the Post Office that it is in this way that progress is most likely to be made. Others take a less sanguine view, and believe that a more energetic and resolute policy must be adopted if the Post Office is to

achieve the improvements of efficiency and service which are necessary both in themselves and in order to combat the threat that competition from new forms of communication will cause loss of business, and with it a loss of jobs, on a very serious scale.

13.12

Our conclusion is that judgement, in a sense, must be suspended. Opinions may differ about the adequacy of the Post Office's efforts to solve its problems, but since they may lead to the necessary changes we refrain from concluding that at this time it is pursuing a course of conduct contrary to the public interest. Nevertheless we emphasize that much depends upon what is achieved in the next few years. If within that span the matters mentioned in paragraphs 13.9 and 13.11 cannot be mended, the outcome may indeed be contrary to the public interest; for not only will the customer be paying an unduly high price for the service received, but the choice may then lie between rapid and painful contraction of the business and its maintenance at heavy cost to public funds.

REVISED PLANNING AND CONTROL SYSTEMS**1. Workload Assessment and Staff Hour Recording**

Workload assessment will be introduced at all offices, and staff-hour recording systems will be improved so as to allow cost determination and control by work area to assist in the economic provision and pricing of products and services. The Post Office agrees that any costs in providing the system will be borne by the Post Office.

2. Revised Revision Procedures

Taking into account the results of the management study at Leeds HPO and the introduction of the resultant new duties, and following national negotiation to be completed no later than June 1985 revised revision procedures will be introduced at further offices in each Region. These revised procedures for indoor work will be based primarily on a rate per item being set, using independent work measurement techniques, for each type of traffic and work area as appropriate. These rates per item will take account of local characteristics and will be used to determine the basic staff hours required for each part of the office. These identified staff hours will then be built up into duties matching workload and negotiated with local union branches in the normal way; the revised duties will be introduced at these further offices in order to complete final national negotiations for the revised revision procedures for use at all offices by December 1985. The aim will be to

introduce revised duties at all major offices and as many others as possible by April 1986. For delivery work, use will be made of computer-assisted revision techniques, again following trials and national negotiation, with such work measurement as may be necessary to establish basic staff-hour requirements. Similar up-to-date measurement techniques will be introduced for cleaning work. Both these activities will commence at some offices in June 1985. All eligible savings made in accordance with the above would be payworthy under IWM. Both parties will strive to achieve the dates in this paragraph, but if any do not prove to be practicable they will be subject to joint review at national level.

Prime Minister.

This news has just
come through. MET 3/6

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URGENT - POST

THE POSTAL DISPUTE HAS BEEN SETTLED AFTER 19 HOURS OF TALKS.

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CONFIDENTIAL

Post Office

PRIME MINISTER

POST OFFICE INDUSTRIAL RELATIONS

In my minute to you of 15 May I reported the fragile industrial relations situation in the Post Office. You and colleagues will wish to be aware of developments since then and where matters now stand.

2 I shall circulate later today a note setting out the position in more detail but the most significant developments are as follows. Following the majority ballot in favour of strike action, mails staff at Leeds are on an indefinite official strike. Unofficial action is also being taken at 13 other mails offices in Yorkshire and at a number of offices in Lancashire. Over 11 million items are now being held up and some 8 per cent of addresses in the UK in effect have no mails service.

3 The UCW has begun to hold strike ballots in the 11 areas to which the Post Office intends to extend the changes introduced at Leeds, and the results are expected within two or three days. The union is also making preliminary arrangements for a nation-wide ballot on pay.

4 On Friday 30 May the UCW unsuccessfully sought an injunction to prevent the Post Office requiring those who have been on strike at Leeds to sign a declaration that they would work



normally before allowing them back to work. The union's application failed on a technical point without a judgment on the substantive claims made. It is not expected that the UCW will appeal but it is understood to be exploring other grounds for taking legal action against the Post Office.

5 The Post Office made clear its willingness to resume talks with the UCW without preconditions; equally it has made clear its determination to see through the changes at Leeds (and subsequently all Mechanised Letter Offices) and its resistance to the UCW claim for additional 30 minutes rest breaks which the Post Office estimates would cost £60 million a year. Yesterday the UCW responded by holding talks with the Post Office. After eight hours the talks were adjourned, and resumed at 11.am today. So far as the rest break issue is concerned, Sir Ronald Dearing has told me that he believes there is scope for repackaging the changes in a way that may appeal to the UCW: the new package would give UCW members at local level the option of taking part of the bonus that can be earned either in cash or in the form of up to 15 minutes extra rest break. The cost of any addition to rest periods would therefore fall to UCW members, not the Post Office.

6 It is by no means clear how the rapidly changing situation might develop but if today's talks break down there is a serious risk of a national postal strike, and this could happen in a



matter of days as more postal staff refuse to cross picket lines and handle mail diverted from strike-bound offices.

7 If a national mails strike does develop it is likely that it could be borne for some weeks without unduly adverse effects on the economy. There would be particular operational and financial difficulties for certain sectors which rely heavily on mails services. But generally postal users could manage with alternative forms of communication and the services of private sector carriers are already available for parcels and for letters charged at £1 or more.

8 However, as we have made clear since Keith Joseph's review in 1979/80, the Post Office's letter monopoly is a privilege that it has to justify by the service that it offers. There is a statutory power to suspend the monopoly by order. If the Post Office is unable to provide its mails service, because of industrial action or for any other reason, we must consider whether and how to exercise that power. Politically we shall find ourselves under increasing pressure from our supporters to suspend the monopoly, particularly if the talks between the Post Office and the UCW break down. However, the monopoly covers only inland letters charged at under £1. Suspension of the monopoly would encourage additional local services but might not do much to promote an alternative nationwide postal service. The decision on suspension, in the event of a widespread strike,



would turn on the extent of the disruption and the risk of provoking sympathetic action by other Post Office employees (which could threaten the maintenance of essential social services). A suspension order could be made at short notice, probably within 24 hours, if it was judged necessary. At Annex B I suggest a form of words you might use in the House. They make clear that suspension of the monopoly is a real option in the event of serious and prolonged disruption to the letter service.

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

CONFIDENTIAL
P.C.
PAUL CHANNON

3 June 1986

Department of Trade & Industry



ANNEX B

Q. WILL THE GOVERNMENT SUSPEND THE LETTER MONOPOLY?

- A. Competitors can already offer rival services for all parcels and inland letters costing £1 or more. The Post Office's remaining letter monopoly is a privilege. It is justified by the benefits it gives to postal users in general. Government have the power to suspend that monopoly. If the present industrial action leads to a serious decline in the quality of Post Office's service the Government will consider suspending the monopoly to allow others to provide an alternative service to the public.

DEPARTMENT OF TRADE AND INDUSTRY
3 June 1986

JF5BGH

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Looking at the overall situation therefore, in a well managed environment where the staff are motivated by incentives to perform well an employer should be looking for a work rate of 100, with 85% of time being spent directly working. We are looking for a more modest work rate of 75 with a utilisation factor of 80%.

We think that this slightly less ambitious approach is a good first step and in practical terms is likely to produce more immediate benefit than trying to move in one jump from where we are, to where we wish to be.

Postmen will benefit from a share in any savings achieved, in that they will get 70% of the direct wage savings, with an extra 5% added if the quality of service standards are achieved. By general industrial standards this is a very high share of the savings.

Our assessment is that with implementation of our proposals, the Postmen affected by the new staffing arrangements will get bonuses averaging £20 a week.

The Issue in Dispute

Under internationally respected conventions, all "pure" work rates attract a given relaxation allowance, depending upon the nature of the task. These allowances provide employees with the opportunity to recover from the mental and physical effects of their work.

We have added a relaxation allowance of about 11% to our staffing proposals, or in other words about 4 hours per man per week. This is in addition to the normal meal breaks.

Part of that 11% is to provide for a 20 minute tea break each day. However, in return for accepting the proposed work standards the Union is asking for additional relaxation allowances. The Union claim of an extra half an hour per man, per day in total amounts to some 2½-3 hours per week.

We say that our allowance of 4 hours is reasonable and there is no case for adding another 2½-3 hours to it.

Indeed it could be said that in allowing 11% for relaxation, we have been over-generous. The argument is that an 11% level of relaxation is appropriate for workers operating at a rate of 100. For workers operating at a rate of 75%, less relaxation is needed. But we have not taken that point. Again we have tried to prepare our new staffing proposals on a fair and workable basis and we believe this to be the correct approach.

Why is the Post Office doing this?

The Post Office is at fault for not having introduced work standards very many years ago. One consequence of this is that Management has not had a sound basis for working out proper manning arrangements. Very different unofficial work standards have been adopted from one place to another, and this has led to higher bonuses being earned in some towns than in others for equivalent levels of work. But perhaps most fundamental is the criticism that the Post Office has not had an effective measure of the work rates being achieved in its various offices, and how they relate to a reasonable standard. The evidence available is that work rates in the Post Office have often been well below a good standard, although that is by no means universally true and without question there are parts of the day in any office when the postmen work very well.

The View of Outside Bodies

The Post Office has been criticised again and again for not facing up to its industrial relations needs. The most recent occasion was the report of the Monopolies and Mergers Commission eighteen months ago. The Commission specifically recommended (see Appendix A) the kind of things we are introducing in Leeds. Moreover, it came close to finding that the Post Office Board was running the Post Office contrary to the national interest because it was not pursuing sufficiently

firm policies in industrial relations. There were those, according to the report, that considered the Post Office should have been pursuing more vigorous policies. But the Commission as a whole, came to a view that the Post Office should be given a chance to continue to pursue its policy of trying to secure change through negotiation, and only thereafter obtaining it by executive action.

What the Post Office Has Done Since the MMC Report

The Post Office was on the way towards work measurement well before the MMC made its investigation. It continued the work after the MMC Report and has sought to pursue change through negotiation. When it concluded a business efficiency agreement with the UCW in May of 1985, there was provision for a new approach to the revision of procedures in sorting offices, and it was agreed by both sides that we would aim to have these in operation in all major offices by April 1986 (see Appendix B). That date has now passed and we are now in the process of introducing new procedures into the Leeds office by executive action.

Perhaps again the Post Office is most vulnerable to criticism for having taken so long to reach this point after months of negotiation and to have implemented the new manning arrangements in only one office.

MMC RECOMMENDATIONS

(Letter Post Service - September 1984)

Summary of Conclusions and Recommendations:

Page 175

26. Standard times should be established as a matter of urgency for all major tasks in sorting offices, including manual sorting.
27. Man-hours required should be determined directly from expected levels of traffic by using workload weighting, standard times or in the case of delivery duties, the Operational Research Delivery Model. Assignment of staff to tasks should be at management discretion and as flexible as the situation requires.
28. The management control system in sorting offices should be revised with uniform, fully documented procedures, target levels of performance that are just attainable with the most efficient standard methods and monitoring of performance to allow action to be taken to correct low levels of performance.

The MMC Judgement in the Public Interest

- 13.9 It is against this background that we have to consider the final question put to us - whether the Post Office, in relation to any matters falling within our terms of reference, is pursuing a course of conduct which operates against the public interest.
- 13.10 We believe that the Post Office now largely shares our view of the things which need to be done, and the answer to this final question must depend chiefly on the judgement whether the Post Office is making adequate efforts to do them. The Post Office has told us of its existing plans and current developments, and we have described them in this report. The Post Office's fundamental view is that progress can be maintained, and the desired ends eventually achieved, if it persists in its present endeavours to introduce change with the agreement and co-operation of the unions, while being prepared to take executive action if that proves necessary in the end.
- 13.11 Some of us are not prepared to dissent from the belief of those running the Post Office that it is in this way that progress is most likely to be made. Others take a less sanguine view, and believe that a more energetic and resolute policy must be adopted if the Post Office is to

achieve the improvements of efficiency and service which are necessary both in themselves and in order to combat the threat that competition from new forms of communication will cause loss of business, and with it a loss of jobs, on a very serious scale.

13.12

Our conclusion is that judgement, in a sense, must be suspended. Opinions may differ about the adequacy of the Post Office's efforts to solve its problems, but since they may lead to the necessary changes we refrain from concluding that at this time it is pursuing a course of conduct contrary to the public interest. Nevertheless we emphasize that much depends upon what is achieved in the next few years. If within that span the matters mentioned in paragraphs 13.9 and 13.11 cannot be mended, the outcome may indeed be contrary to the public interest; for not only will the customer be paying an unduly high price for the service received, but the choice may then lie between rapid and painful contraction of the business and its maintenance at heavy cost to public funds.

REVISED PLANNING AND CONTROL SYSTEMS**1. Workload Assessment and Staff Hour Recording**

Workload assessment will be introduced at all offices, and staff-hour recording systems will be improved so as to allow cost determination and control by work area to assist in the economic provision and pricing of products and services. The Post Office agrees that any costs in providing the system will be borne by the Post Office.

2. Revised Revision Procedures

Taking into account the results of the management study at Leeds HPO and the introduction of the resultant new duties, and following national negotiation to be completed no later than June 1985 revised revision procedures will be introduced at further offices in each Region. These revised procedures for indoor work will be based primarily on a rate per item being set, using independent work measurement techniques, for each type of traffic and work area as appropriate. These rates per item will take account of local characteristics and will be used to determine the basic staff hours required for each part of the office. These identified staff hours will then be built up into duties matching workload and negotiated with local union branches in the normal way; the revised duties will be introduced at these further offices in order to complete final national negotiations for the revised revision procedures for use at all offices by December 1985. The aim will be to

introduce revised duties at all major offices and as many others as possible by April 1985. For delivery work, use will be made of computer-assisted revision techniques, again following trials and national negotiation, with such work measurement as may be necessary to establish basic staff-hour requirements. Similar up-to-date measurement techniques will be introduced for cleaning work. Both these activities will commence at some offices in June 1985. All eligible savings made in accordance with the above would be payworthy under IWM. Both parties will strive to achieve the dates in this paragraph, but if any do not prove to be practicable they will be subject to joint review at national level.

SECRET

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Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

21st May 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1

NBPN

D Paul.

NATIONAL GIROBANK

Thank you for sending me a copy of your letter of 13 May to Nigel Lawson.

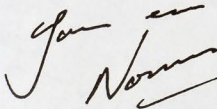
The privatisation of Girobank would undoubtedly be greatly to the benefit of the enterprise itself; I know that the management of Girobank would welcome it. But it has always been subject to complicating factors, not least its interrelationship with other Post Office businesses.

The big prize to be won is to build further on the efficiency gains now being achieved in the Post Office as a whole. With that under their belt, both the privatisation of Girobank and the wider introduction of private capital into the postal businesses is in prospect. I accept fully your analysis of how matters stand now. The industrial relations climate within the Post Office remains a fragile one, but in which a firm approach from the management is likely to succeed.

It would, however, be potentially very damaging to the privatisation programme, and to progress in the Post Office generally, if we were to start down the track on the privatisation only to find that it went off the rails - worst of all, by the action of the unions involved.

I agree that we should defer the proposed privatisation of Girobank, but regard it as an early priority for after the General Election.

I am sending a copy of this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

POST & TELS; Future of P.O.: 1610



[Faint, illegible handwritten scribbles]



JU248

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

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19 May 1986

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
London SE1 6BY

NBFN.

Dear Norman.

Thank you for your letter about the Post Office Counters Plan 1986/87-1992/93 following my paper E(A)(86)15. I am sorry that you were not sent copies of my correspondence with Norman Tebbit and John MacGregor.

I am pleased that you welcome counters automation and I note the points you make about its value to your Department and about its funding. Although I would not dispute that in the shorter term at least its direct benefit to your Department is limited, I think it is important to consider the likely adverse effects of not going ahead. As explained in my paper, it seems most likely that unless it goes ahead with automation, Counters will find it progressively harder to attract and keep business, and costs to existing clients will increase as a result.

I can understand your concern about the costs of automation being recovered in the prices that Counters charges to your Department. But I think a distinction needs to be made between the capital and current account costs of automation. As far as the current account costs are concerned, as noted in EA(86)(15), the Counters plan assumes that these will be absorbed within Counters' costs and like any other current account costs will be recovered in prices to agency clients. However, as emphasised in my paper, the capital costs will have to be funded through the Post Office's EFL. I agree with you that it would not be acceptable

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for the capital costs to be passed on to the Counters clients such as the DHSS. Equally, it would be unacceptable for the costs to be funded by cross-subsidy from users of Mails services. My officials are taking up the question of adjustment to the EFL with the Treasury.

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

A handwritten signature in black ink, appearing to read 'Paul Channon', written in a cursive style.

PAUL CHANNON

A handwritten signature in black ink, appearing to read 'Paul', written in a cursive style.

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POST and TELG : Post Office PHO



For the national flag to be raised on the Canadian flag
such as the British Empire, it would be desirable for the
text to be raised in accordance with the rules of the
organization and under the direction of the
with the flag.

I am copying this letter to the Vice Minister,
and the other members.

RECEIVED 1936

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POST
OFFICE
PHO



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PRIME MINISTER

POST OFFICE INDUSTRIAL RELATIONS

Colleagues may find it helpful to have some information on the current industrial relations difficulties being experienced by the Post Office, primarily at Leeds.

2 The Post Office has recently implemented a number of changes at their Leeds Mechanised Letter Office. These changes were recommended by the Monopolies and Mergers Commission Report in 1984 and will maximise the benefits of last year's deal with the Union of Communication Workers. In response to these changes there has been an unofficial ban on overtime by the normally moderate staff at Leeds for three weeks, although the Post Office management have continued to implement their planned changes and have employed 300 casual workers to maintain the service.

Although there is picketing at the Leeds office, the service is ... at present almost normal. I attach a note setting out the present position in more detail.

3 Despite a majority vote at Leeds in favour of strike action, the union, knowing that its case is weak, has yet to decide what form of action it might take. Nevertheless there remains a risk

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1. IF (for para 9 of this paper)

2. Prime Minister 4

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that the issue could boil up quickly into a national strike. The matter is likely to come to a head at the UCW conference which begins on 18 May.

4 It would be unwise to under-estimate the fragility of the Post Office industrial relations at present. Over the past year or so their management have adopted a much tougher style and they have begun to reap their rewards in terms of securing long overdue changes and improvements that will be of considerable benefit. I have told their Chairman, Sir Ronald Dearing, that he and his Board have our support in any firm stance they are taking.

5 I am copying this minute and its attachment to Members of the Cabinet and to Sir Robert Armstrong.

P.C.
PAUL CHANNON

15 May 1986

Department of Trade and Industry

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POST OFFICE INDUSTRIAL RELATIONS

1 The Post Office management are engaged on a programme of action to improve the efficiency of the business and the service it provides. Although they would prefer to proceed in agreement with the unions and workforce, they have made it clear that where agreement is not forthcoming, changes will nevertheless be implemented in order to secure the improvements needed to safeguard the future of the business.

2 The postal business of the Post Office is split into two main operations: Mails, currently being divided into two separate businesses - Letters and Parcels; and Counters, due to be incorporated as a subsidiary late next year. The current industrial relations problems affect all three businesses.

Mail Business Efficiency

3 Last year the Post Office concluded a Mails Business Efficiency deal with the Union of Communication Workers (UCW), which is the main union with 156,000 of the total workforce of about 180,000. The deal, reached at national level, paved the way for full implementation of letter mechanisation, full exploitation of new technology, mandatory productivity schemes, increased part-time working to replace overtime and increased productivity, and improvements in the quality of service. Local implementation of the deal now covers about 80 per cent of the staff in question but sporadic unofficial local industrial action continues to occur in a generally tense atmosphere, sometimes in connection with proposals for local agreements or their implementation.

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Work measurement and manpower allocation

4 Having carried out studies in work measurement and methods of matching staff more efficiently to requirements, the Post Office has implemented a number of changes at the Leeds Mechanised Letter Office (MLO). The changes are essential for full and effective implementation of the recommendations in the Monopolies and Mergers Commission's report in 1984 on the letter post and to maximise the benefits of the Mails Business Efficiency deal, and the Post Office intends to extend the changes to all its units, starting with a further ten MLOs. However, the normally moderate staff at Leeds have voted 2:1 in favour of industrial action. Management regard Leeds as a test case and have continued to implement the changes, by deploying large numbers of casual staff. The UCW know that their case is weak and have so far shown little inclination to take official action. Nevertheless, there remains a risk that the issue will quickly boil up into a national strike.

Counters Business Efficiency

5 Earlier this year the Post Office negotiated a Counters Business Efficiency deal with the UCW. It is the counterpart of the Mails deal, and provides for important changes in working practices, the recruitment and operation of part-time and casual staff and a generally more flexible approach which is designed to offer the customer a better service as well as improve efficiency. At a special UCW conference last month, however, a number of amendments were made that were unacceptable to the Post Office. In subsequent negotiations agreement has been achieved on virtually all the terms rejected by the conference, subject only to a ballot of the UCW membership. A separate deal on similar

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lines has been provisionally agreed for 15,000 lower to middle ranking white collar grades represented by the Communication Managers Association (CMA), which will be asked to ratify the deal at its conference later this month.

Engineering and motor transport

6 There are some 8,000 engineers in the Post Office, who are represented by the National Communications Union (the NCU, formerly the POEU). Following Rayner-type scrutinies of its engineering and motor transport activities the Post Office has proposed measures to improve efficiency that involve up to 2,000 job losses. By a narrow margin a ballot of NCU members supported industrial action to resist the plans. Although the union executive is at present dominated by the hard left, elections are in progress for the first time on an individual ballot basis, and it is not clear whether the union will take action. For its part the Post Office is determined to proceed with its proposals next week, even though possible industrial action could worsen (but probably not stop) letters and parcels services.

Reorganisation

7 The reorganisation of the corporation into four separate businesses (Letters, Parcels, Counters and Girobank) is strongly opposed by the unions, who see it as a prelude to privatisation. More immediately they fear job losses and the progressive introduction of separate pay negotiations for each of the businesses. It has been reported - but not confirmed - that the UCW is planning a ballot on protest strike action at its annual conference which begins on 18 May. In the meantime, the UCW seems to be writing to MPs to explain its concern.



Pay

8 The UCW (settlement date 1 April) sets the pace for Post Office pay. The UCW has asked for an increase in excess of RPI and a cut in the working week. So far the Post Office has made offers within the 5 per cent ceiling the Chief Secretary asked for, but there is little realistic prospect of a settlement at that level. The UCW is contemplating the possibility of a strike ballot if the offer is not improved substantially.

Sub-Postmasters

9 Of the 22,000 post offices, over 20,000 are run by sub-postmasters under contract to the Post Office. The National Federation of Sub-postmasters is holding its conference in Bournemouth this week, and I understand that there have been expressions of great bitterness towards the Post Office for the way it imposed the 1985 pay award: although it was in line with other Post Office settlements, it included changes in contractual agreements to safeguard Post Office finances against change in traffic levels. The Federation is therefore concerned about the 1986 pay round, the preliminary meeting for which is due to take place with the Post Office next week. The conference's mood is reflected in EDM 837 standing in the name of Paddy Ashdown (who has espoused the sub-postmasters' cause and was received with acclaim when he attended the conference at Bournemouth). Although there is no immediate threat of hostility from the sub-postmasters the Post Office is conscious that the pace of change has left bruises which will need some careful nursing in the months ahead if there is not to be a much more energetic public campaign by and on behalf of the sub-postmasters.



The NWU (testament date 1 April) sets the pace for Post Office pay. The NWU has asked for an increase in excess of 4% and a cut in the working week. So far the Post Office has asked for a 5 per cent ceiling the Chief Secretary asked for, but there is little realistic prospect of a settlement at that level. The NWU is contemplating the possibility of a strike unless it the offer is not improved substantially.

Sub-postmasters

Of the 25,000 post offices, over 20,000 are run by sub-postmasters under contract to the Post Office. The National Federation of Sub-postmasters is holding its conference in Birmingham this week, and I understand that there have been expressions of great bitterness towards the Post Office for the way it imposed the 1955 pay award; although it was in line with other Post Office settlements, it included changes in contractual agreements to safeguard Post Office finances against change in craft levels. The Federation is therefore concerned about the 1955 pay award, the preliminary meeting for which is due to take place with the Post Office next week. The conference's need is to persuade the NWU to stand in the name of fully salaried jobs and support the sub-postmasters' cause and was received with acclivity when he attended the conference at Birmingham. Although there is no immediate threat of hostility from the sub-postmasters the Post Office is conscious that the pace of change has left prizes which will need some careful nursing in the months ahead if there is not to be a much more energetic public campaign by and on behalf of the sub-postmasters.





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Secretary of State for Trade and Industry

SECRET

13 May 1986

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

Dear Nigel

Prime Minister 2
To note that privatisation
of Girobank could slip beyond
the next election.
SHS
3/6.

NATIONAL GIROBANK

Since I wrote to John Moore on 26 February, I have given careful thought to the privatisation of Girobank discussed by Leon Brittan in his letter to you of 21 January.

... As I undertook in my letter to John Moore, I attach a short paper by officials setting out the main issues. There are several points in this which have caused me to reach the reluctant conclusion that, for the short term at least, the arguments for privatisation are outweighed by the potential consequences, both for the business itself and for other areas of policy should the privatisation fail. I believe a failure is avoidable, but present circumstances make the outcome too uncertain for me to feel able to advise colleagues to embark on this course at this time.

In particular, the issue should be seen in the context of the reorganisation of the Post Office's main businesses, which is being pushed through with our support by Sir Ronald Dearing. It would be very unfortunate if a decision to privatise Girobank should become the cause of industrial relations difficulties which might damage these wider efforts to improve the Post Office's efficiency. In addition, the industrial relations climate in the Post Office generally has worsened since my paper on the Post Office Counters Plan E(A)(86)15, circulated in March. The Post Office's new productivity arrangements are likely to be rejected by the Union of Communication Workers (UCW) Annual Conference later this month, and

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the General Secretary is reported to be seeking a ballot on strike action against these and the Post Office's reorganisation proposals, which the unions see as a prelude to privatisation. It would be delivering an added weapon to their armoury if, after the creation of Girobank as a subsidiary in October last year, we were now to announce consideration of its privatisation. The fragility of the industrial relations position in the Post Office is illustrated by developments at Leeds, where the Post Office has begun to implement changes in working practices that could save up to 20 per cent of staff time. There the normally moderate workforce has voted by two to one for an official strike. As Leeds is planned to be the pattern for the introduction of these improvements more widely, the Post Office fears that it will become a test case, and there are already signs that other more militant areas are spoiling to join in.

Leon Brittan's letter of 21 January foresaw a timetable of 9 months for the privatisation process, and further delay now would mean privatisation not being complete before summer 1987. Should the legislation mentioned in his letter become necessary, which we still cannot be sure of, this might become impossible to introduce so late in the session, even if the need were recognised at an early stage of discussions with potential purchasers.

I believe that any protest against privatisation by Girobank staff at its Bootle computer centre might be contained by judicious handling. However, should the overall industrial relations climate spill over into Bootle, which an announcement of privatisation might well cause, action by even a small number of key staff could result in rapid loss of the Girobank customer base, rendering the business unsaleable. Girobank is furthermore dependent on Post Office Counters and Mails for all its transactions, and any industrial action taken by these businesses against reorganisation, or threats of action directed at a privatised Girobank, would impair its attractiveness to a potential purchaser.

Another potential problem might be the reaction of sub-Postmasters, who are, as you are aware, a very considerable lobbying force. As Girobank business has become more important with the decline in Government (particularly DHSS) transactions, sub-Postmasters will be apprehensive of any changes in Girobank's structure. As the attached paper points out, privatisation is likely to have a neutral or positive effect on business for both Crown and sub-Post Offices, and it should therefore be possible to provide sub-Postmasters with adequate assurances about the impact of these changes. However, I do not need to underline the political difficulties involved, should the sub-Postmasters' concern force

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them into an alliance of interest with the Post Office unions in opposition to privatisation.

To announce plans to privatise Girobank, only to have them thwarted by union action could be politically damaging to the rest of our privatisation programme, and to risk this at the present time for proceeds of some £70-100 million strikes me as unwise.

I therefore wish to seek your and colleagues' agreement that, in view of the present industrial relations climate within the Post Office, we put off Girobank privatisation until after the next General Election, when we will be in a position to consider it with the privatisation of other parts or the whole of the Post Office.

There are two issues related to this which we need to bear in mind. You will be aware that I have now received the Girobank Business Plan, which I hope to put forward to colleagues for consideration in July. As long as we have made no clear decision on whether to proceed with privatisation before the next Election, it will be difficult to reach any clear conclusion on the Plan. Continued uncertainty will be damaging to Girobank. Furthermore, the Business plan identifies a requirement of £20 million over two years from 1987/8 to allow Girobank to stop reining back its business, at its has been recently, to meet the prudential requirements of the Bank of England, and to expand into more profitable areas of business. While I do not wish to anticipate the discussion we will require to have in July, colleagues should be aware that a decision not to privatise Girobank in the near future will make the resolution of this issue essential.

John MacGregor's letter to me of 26 March expressed some reservations about the way in which the objectives which I propose to set the Post Office deal with privatisation. I do not believe that a decision to postpone sale of Girobank would rule out some limited ways of introducing private capital into the Post Office before the next Election, and the wording of this objective, to which the Chairman has agreed, could remain the same. Whether we need to set new objectives for Girobank if it is not privatised will need to be considered further. If we do include new objectives for Girobank, the formulation and agreement of these may take some time. The setting of these objectives would in any case be more appropriate in our response to the Girobank's business plan than to the overall strategic objectives of the Post Office, which do not deal with other subordinated businesses. In view of this, I do not believe that we need further to delay the issue and publication of these objectives. With your agreement, I would therefore propose to do so as soon as possible.

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I am copying this to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and Sir Robert Armstrong.

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PAUL CHANNON

Paul

Enc

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GIROBANK PRIVATISATION

Introduction

The then Secretary of State wrote to the Chancellor on 21 January with the view that, on the basis of a study conducted by Hambros last Autumn, privatisation of Girobank was feasible in the current Parliament. This memorandum sets out the arguments for and against privatisation.

Reasons for privatising Girobank

2 Girobank, since October 1985 a wholly-owned subsidiary plc of the Post Office, has become a successful and profitable enterprise. After a financially shaky start it has recorded a substantial increase in profits almost every year since 1974/5. But it is up against a barrier to further expansion in personal banking - unless further capital is made available - because of prudential limits applied to banks generally by the Bank of England. The Girobank Business Plan, which Ministers will need to discuss in the next few months envisages a capital injection of £20m over 2 years to allow the business to expand. At present this would be a charge on the PSBR. In the private sector, Girobank would have greater freedom to attract capital in order to expand into more profitable (and higher risk) business which public expenditure constraints on its capital and the risk-averse ethos of a public sector enterprise at present prevent it from entering.

3 Girobank has a close relationship with the Post Office counter network (see para 6 below), but is essentially separate from the Post Office's mainstream activities. To privatise the whole of the Post Office or other main businesses would require structural changes and extensive primary legislation which could not be accomplished in the life of this Parliament.

Main problems

4 Two major points which require close consideration in deciding on privatisation are the risk of industrial conflict and the possible impact on Counter business.

Industrial action

5 The Bootle Girobank Centre includes a number of activists aligned to the Militant Tendency. They will oppose the sale vigorously, and an announcement now that privatisation is being considered would give ammunition to the Post Office unions who (wrongly) suspect that privatisation underlies the structural changes now being introduced in the Post Office, and are now threatening strike action to oppose them. Sustained action by a few key workers in Bootle could seriously damage the business. While the Bootle workforce will not in the view of the Post Office carry their opposition to the point of jeopardising their jobs the present industrial relations climate in the Post Office as a whole is highly sensitive. Prolonged conflict over new productivity arrangements, Post Office reorganisation and the current pay round is a real possibility. This conjunction of difficulties would make an announcement of the consideration of privatisation impractical at this time. This has implications for the timetable (see para 15 below). An additional factor which needs careful consideration is the effect on the rest of the privatisation programme should Girobank privatisation have to be abandoned because of industrial action rendering the business unsaleable.

Girobank relationship with Post Office Counters

6 Girobank's and Counters' operations are inter-linked. Post offices provide Girobank with its retail outlets, the significance of which is reflected by the proportion of Girobank's costs (60%) made up by Counters' charges for services. Girobank represents 16-17% of Counters' business and its importance as a source of business to Counters is growing as Government chiefly DBSS, business falls off.

7 Girobank's Business Plan is now being considered, and proposes expansion into areas of activity which will be handled by mail or telephone rather than over post office counters. The prospect is therefore for only modest growth in Girobank transactions over counters whether Girobank is sold or not, although a wider range of services will benefit Counters' volume by retaining personal customers using counters who might otherwise drift away. Irrespective of contractual arrangements, which at present foresee a limit to the speed at which Girobank could switch business from counters, a privatised Girobank would in practical terms be unable to withdraw quickly from Counters because of the nature of the business - and a purchaser intending to do so would anyway not be acceptable.

8 A purchaser might wish to make more selective use of the network, for instance using his own outlets where available. Ultimately Girobank, which negotiates with Counters at arm's-length, will decide on its use of the network (as will any other user) on the basis of the cost and efficiency of Counters' services, regardless of whether Girobank stays in the public sector or is privatised. The revised Counters plan aims to retain traffic by improved competitiveness. The impact of automation and the extension of Counters' powers would benefit Girobank whatever its status.

Other Issues

9 (i) Legislation: A one-clause Bill might be needed early next Session to allow the Post Office to enter into a legally-binding contract not to compete with a privatised Girobank, as its present statutory powers cannot be fettered in this way. Whether this, rather than a statement of intent, proved necessary would depend on the wishes of the purchaser, but it would be politically damaging if the Government were forced to abandon privatisation at a late stage because this requirement could not be met. This legislation would be controversial, but need take relatively little Parliamentary time. A second clause allowing the Post Office to offer a wider range of services over counters would offset the negative aspects of the first, while enhancing the attractiveness of Girobank's relationship with Counters to potential purchasers. The industrial relations climate and the delay this might cause makes the timing of any legislation difficult, as negotiations with purchasers might not have reached an advanced enough stage to ascertain whether legislation was necessary before it became too late for a Bill to be introduced.

(ii) Potential foreign purchasers: Foreign banks were among the possible categories of purchasers identified by Hambros. In view of recent political developments, it could be a source of controversy if one of these made the highest offer. A statement at the start of the privatisation process excluding foreign bids would hold difficulties in relation to the EC.

(iii) Government Direction: The Law Officers advise that the Post Office may dispose of subsidiaries voluntarily only if it is in their best commercial interests. The Government's policy on privatisation cannot be a proper consideration of the Board, and the Secretary of State would need to issue a statutory Direction. Provided, however, that there was no challenge (say, by the unions) to the Board's starting the process of sale without a Direction, the issue of a Direction could be delayed until late in the process. This would avoid its being a focus for political controversy, and would reinforce the informal influence which Government and the Bank of England would wish to have over the final choice of purchaser. While the Board's attitude is cooperative, it is possible that, if industrial relations worsened they would not wish to proceed without a Direction.

(iv) Taxation: The transfer of assets to Girobank plc in 1985 would attract Capital Gains Tax if it is sold within 6 years. This tax, perhaps £20 million, would be payable by the purchaser, and would tend to depress the price commensurately. The PSBR effect would be neutral.

(v) Possible loss of Government business: DHSS business alone made up £52.8 million (or around 20%) of Girobank's income in 1984/5. If DHSS were to feel that its close relationship with Girobank after privatisation were no longer appropriate, this would affect the sale price.

Method of privatisation

10 Hambros rejected flotation and buyout by the management alone as viable options, since Girobank would on its own be too vulnerable and short of capital strength in a competitive market dominated by the Big Four clearers, and because of a number of operational difficulties.

11 They concluded that a private treaty sale, either to a single purchaser, or to a management team backed up by a consortium including a large enterprise, would be the only guarantee of Girobank financial stability. One problem with a management-led consortium would be the difficulty which might be encountered in finding an institution prepared to fund the purchase of equity as well as future capital requirements of the bank without also wishing to take control.

Transfer of staff and pensions

12 Girobank's 6,100 staff formally remain employees of the Post Office, but with Girobank bearing all staff costs. It would be straightforward to make the staff direct Girobank employees, but handling of this will require care, as the unions' attitude to the formation of separate businesses elsewhere (set out in para 5 above) could be inflamed by premature transfer of staff to Girobank. In the present industrial relations climate, this would be inadvisable.

13 Girobank staff are members of the Post Office Staff Superannuation Scheme (POSSS). The POSSS Trust Deed prevents the direct splitting off of assets to fund a separate Girobank scheme which could be carried over to the privatised company. A new scheme would have to be established, or arrangements made for Girobank employees to be accommodated in the purchaser's existing pension scheme. The transfer of part of the assets of POSSS to an outside scheme is barred by the Trust Deed, but the Trustees can

make 'transfer value payments' in respect of each employee, the sum of which would require only £1 million to make the amount transferred up to the full value of assets referable at present to Girobank employees in POSSS.

Potential proceeds

14 Bambros were unable to approach potential purchasers in view of the need for confidentiality. The net asset value of Girobank is around £80 million. Bambros believed that a purchaser would pay a premium for control of an established UK retail bank. Taking account of factors likely to depress the price, a range of £70-100 million seems realistic. The full proceeds less the agreed costs of the sale and any tax payable in connection with it will be reflected in the Post Office EFL for that year, and would have a positive PSBR effect, but not produce direct revenue to the Consolidated Fund.

Timing

15 To announce that Girobank privatisation was being considered would be inadvisable before the industrial relations scene has quietened down considerably. Since the Secretary of State wrote on 26 February, this has become more sensitive. The Union of Communication Workers (UCW) held a special conference in April, which rejected the Executive's recommendation to accept the new productivity arrangements. The Annual Conference this month is likely to confirm this opposition and there is the likelihood of a strike ballot on this issue and possibly on the plans for reorganisation of the Post Office into separate businesses. The Communication Managers Association will be holding a ballot after the UCW conference on the productivity deal which their executive agreed by a narrow margin with management. It seems likely that the ballot will follow whatever line is decided by the UCW membership. The current pay round negotiations have just started, and the Post Office Chairman foresees little chance that the unions will settle at 5% in view of other higher settlements in the public sector. An offer of 4½% has already been rejected.

16 In view of this, the original timetable envisaged of an announcement by Government in May/June and sale by February 1987 seems no longer realistic. A delay of an announcement until late this year would push the sale date into the Summer or Autumn of next year, with consequent difficulties in the introduction of any legislation which might prove necessary (see para 9(i) above).

Conclusions

17 Most of the problems outlined above are superable with varying degrees of difficulty. The industrial relations climate makes the consequences of an early announcement of a decision to consider privatisation unpredictable, and would suggest the need for a postponement. However, continued uncertainty about the status of the Girobank will have a damaging effect on the business, the future strategy of which Ministers will be asked to decide when they consider the Girobank Business Plan. It would therefore be desirable, should

Ministers decide to postpone privatisation, to do so until after the next General Election, when it could be considered with other parts or all of the Post Office.

Department of Trade and Industry

May 1986

POST + TELG: future
at Post Office



cbsa



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
Victoria Street
LONDON SW1H 0ET

NBP 7

POST OFFICE: COUNTERS PLAN 1986-87 - 1992-93

Following cancellation of the meeting of E(A) on 25 March, to which I had been invited for discussion of E(A) (86)15, my office has not been copied any of the correspondence on this subject. I have now seen the letters from yourself, Norman Tebbit and John MacGregor.

I welcome your proposals for counter automation. The future of the Post Office network is a matter of great concern to our supporters and anything we can do to improve the viability of the Post Office as a commercial concern must be looked at sympathetically.

However, I must stress that what is proposed will have little effect on the work the Post Office does for my Department, either in improving the service or in reducing its cost. I would have great difficulty, therefore, with any proposal that the cost should be passed on to agency clients. Quite apart from the difficulties this would cause the Departments concerned, it would have the effect of classifying this large capital investment as Departmental running costs, which would not be helpful when we are so publicly committed to reducing these costs. If there is any prospect of any part of the cost being passed on in this way, I would expect an opportunity for discussion of this point.

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

NORMAN FOWLER



Secretary of State for Trade and Industry

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

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GTN 215
(Switchboard) 01-215 7877

CONFIDENTIAL

16 April 1986

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

John

NBP

POST OFFICE COUNTERS PLAN

Thank you for your letter of 27 March recording your agreement to the conclusions set out in my paper E(A)(86)15. As you will know, Norman Tebbit has also written in general support of the line I proposed. In the absence of any other comments from colleagues, I now propose to write to the Chairman of the Post Office as outlined in paragraph 17 of my paper, which I think covered the points to which you and Norman Tebbit invited me to draw attention. In particular I shall make it clear that my support for the implementation of counters automation after the pilot phase will depend on my being satisfied that adequate progress is being made with the pilot, with implementation of the overall strategy and with those questions (such as network size) which are presently only at the study stage or to which we have drawn particular attention in previous correspondence.

I shall be asking the Post Office to supply up-to-date figures for the capital spending involved in automation and the other Counters investment projects excluded from last year's IFR pending our decision on this revised Plan, together with proposals for funding the expenditure. As my paper explained, I do not expect the Post Office to be able to absorb the expenditure within its EFL for 1986/87 or the baselines for the subsequent years, without recovering the amounts through higher prices to its agency clients - i.e mainly Government Departments - which would in turn undermine the assumptions which underlie the Plan. While I agree with some reluctance that the expenditure in later years should be handled in the course of the IFR, any EFL adjustment needed for 1986/87 will

JF2BFU

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BOARD OF TRADE
BICENTENARY



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have to be made ahead of the IFR later this year. I will ask my officials to contact yours about this as soon as we have the up-to-date figures from the Post Office.

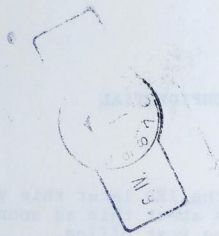
I shall be writing to the Chairman on Monday next, 21 April.

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

PAUL CHANNON

JF2BFU

POST & TELS; Future of P.O; P610



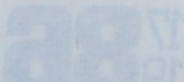
have to be made about of this year. I will ask my
officials to contact your office as soon as we have the
up-to-date figures from the local office.

I shall be writing to the Chairman on Monday next, 15 April.

I am copying this letter to the Chief Clerk, other members of
the Staff and the Secretary.

[Handwritten signature]

Yours faithfully,
[Signature]



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cf/6



Nsm

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

27 March 1986

Dear Paul,

POST OFFICE COUNTERS PLAN

Now that it has been decided to clear your paper E(A)(86)15 in correspondence, I am writing to record my agreement to your conclusions as stated in the paper. *attached*

I note that your approval of the broad principles of the plan and of the starting of the automation project is expressed in limited and conditional terms. I agree very much with that. I do not find the Counters Plan wholly reassuring: it makes promises about cost-cutting which are no doubt sincere, but it will require simultaneous success on several fronts for those promises to be made good. The automation project strikes me as large and ambitious, justifying a cautious approach. The Post Office must not be allowed to assume that they have carte blanche to press ahead with automation irrespective of their success in meeting the Plan's projections.

Your paper refers to the possible need to adjust the Post Office's external finance position. I am sure that that issue should be handled in the normal way during the course of this year's IFR.

I am sending copies of this letter to the other members of E(A) and to Sir Robert Armstrong.

*Yours etc,
JH*

JOHN MacGREGOR

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THE HON. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

Department of Trade and Industry
1 - 13 Victoria Street
London
SW1

2 March 1981

[Handwritten signature]

POST OFFICE COMMUNICATIONS

How that it has been decided to clear your paper (S/18/1) in correspondence. I am writing to record my agreement to your conclusion as stated in the paper.

I note that your approval of the broad principles of the plan and of the starting of the research project is expressed in limited and conditional terms. I agree very much with that. I do not find the language of the plan wholly reassuring. It makes promises about co-operation which are no doubt sincere, but it will require simultaneous success on several fronts for those promises to be made good. The research project strikes me as large and ambitious, justifying a cautious approach. The Post Office must not be allowed to assume that they have carte blanche to pursue ahead with ambitious irrespective of their success in meeting the firm's requirements.

Your report refers to the possible need to adjust the Post Office's financial position. I am sure that that issue should be handled in the normal way during the course of the firm's negotiations.

I am sending copies of this letter to the other members of S/18 and to Sir Robert Armstrong.

[Handwritten signature]

✓ 139



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2ASTel No: 233 3299
747127th March 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1 0ET

N BPN

D Paul

POST OFFICE: COUNTERS

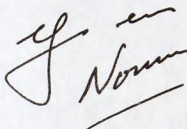
I have seen the letter from the Prime Minister's private secretary of 26 March concerning your paper on the Post Office: Counters Plan 1986/87 - 1992/93 which was due to be discussed at E(A) today.

Your paper makes clear that, in strategic terms, the Post Office must choose between either allowing its counters network to provide only a declining service, for a diminishing volume of business, or else make the necessary investment to allow the network to attract new business. I agree with your view that we should incline to the second course. But, as I said when we discussed this matter at E(NI) on 24 July 1985, it would be wrong to regard Counters automation as a panacea for all Counters' ills. We need, at the same time as agreeing that automation should proceed, to allow and encourage the Post Office to take the necessary complementary action to put the counters network onto a fully commercial basis.

I am therefore glad to see the measures in hand, and also the commitment of Counters management, which you report, to securing the changes that are required, particularly on quality of service which is a source of many complaints to backbench Members. We should also continue to press upon the Post Office the need to take a "zero based" approach to considering the size of the urban network, and also to take further not only work on converting Crown offices to sub-Post Office status, but also of franchising generally.

For our part, we need to look for an early opportunity to legislate to extend the powers of Counters to take new business, and to ensure that the terms of any contract reached between Girobank and Counters in the context of a privatisation proposal do not unacceptably restrict the ability of Counters to take on that new business.

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

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

POST AND TELECOM: Future: PE 10.

For our part, we need to look for an early opportunity to legislate
to extend the powers of Congress to take law that means, and to
ensure that the terms of any contract reached between Sirbank and
Congress is the context of a privatization program do not
unacceptably restrict the ability of Congress to take on their new
business.

I am sending a copy of this letter to the Prime Minister, other
members of the Cabinet, and to Sir Robert Casanov.

[Handwritten signature]

ROBERT CASANOV



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file Expenditure PZ

CBG

10 DOWNING STREET

From the Private Secretary

26 March 1986

Dear Robert,

MEETING OF E(A) ON 27 MARCH

As you will know by now the meeting of E(A) scheduled for tomorrow, Thursday 27 March, has been cancelled.

The Prime Minister has seen Jill Rutter's letter to me of 25 March about forestry and would be grateful if the forestry departments could discuss E(A)(86) 14 with the Treasury, and prepare a revised paper or a supplementary note which would set out the proposal to encourage increases in private forestry and woodlands.

The Prime Minister hopes it will be possible to agree in correspondence a way forward on the plan for Post Office counters set out in E(A)(86) 15. Telephone conversations with Departments suggest that this should be possible, but of course the item would be brought back to E(A) after the Recess if this proved not to be the case.

The discussion of the proposed review of competition law and policy (E(A)(86)16) is postponed until after the Recess.

I am copying this letter to Private Secretaries to other Members of E(A) and Michael Stark (Cabinet Office).

Jan
David

DAVID NORSGROVE

Robert Gordon, Esq.,
Scottish Office

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SHW

SECRET



cd/B4
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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

NBPN

26th March 1986

Dear Paul,

POST OFFICE OBJECTIVES

AT FCAP.

You wrote to the Chancellor on 28 February proposing some objectives for the Post Office. I have also seen your Private Secretary's letter of 14 March.

I am broadly content with the objectives attached to your letter. As you say, they are very similar to those approved by E(NI) last July but for the most part seem to remain relevant to the Post Office.

My main reservation is with the objective about privatisation. We will shortly be discussing in E(A) your paper about the privatisation of Girobank which, as John Moore said in his letter to you of 14 February, will need to address our privatisation objectives for the rest of the postal business. E(A) is also soon to take your paper about Counters future strategy.

I suggest that we should defer finalising your proposed objectives, and especially the privatisation objectives, and review them after these E(A) discussions so the objectives can incorporate our conclusions if that is appropriate. I doubt that any major revisions to your draft will be necessary but rather than becoming committed to a set of objectives immediately ahead of these important E(A) discussions it seems more prudent to leave open an opportunity to bring them into line with any developments in our thinking.

I am copying this letter to members of E(A) and to Sir Robert Armstrong.

Yours ev,
JH

JOHN MacGREGOR

SECRET



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PRIME MINISTER

Post Office Counters Corporate Plan

FLAG A - E(A)(86)15

Post Office counters business consists of 1,500 Crown and 21,000 Sub Post Offices employing directly about 35,000 people. Turnover is about £650m a year, yielding a profit of £32m (4.9%). As well as traditional Post Office Business, counters act on behalf of Government Departments - for example issuing Television and Vehicle Excise Licences and paying pensions and social security benefits. The counters also act as the branch network for Girobank. The annual capital requirement will be £30-40 million a year over the next few years (of which £13 million a year is for automation), with £20-30 million of this being generated internally.

BACKGROUND

2. The Chancellor chaired a meeting of the Sub-Committee on Nationalised Industries in July 1985 which considered the part of the postal business corporate plan which dealt with counters. The Sub-Committee agreed that the Secretary of State for Trade & Industry should invite the Post Office to submit a new Counters Business plan, setting out the effect of a more robust approach to cutting costs and improving service quality. Approval of this plan was seen as pre-requisite for approving the project to automate post office counters. The management have now submitted a new plan whose main features the Trade and Industry Secretary summarises in his paper. He invites the Sub-Committee to endorse the general approach and the commitment to achieve real price reductions and improved service quality while reserving judgement on detailed strategies; to agree in principle to a programme of counter automation; and to approve expenditure for the first pilot

stage.

MAIN ISSUE

3. The main issue is whether the new business plan represents a realistic basis for the development of the counters strategy. In particular, are the measures to reduce costs and improve performance sufficient? If the plan is realistic, should the automation proposals be endorsed?

4. If the Post Office continues as at present the business will inevitably decline. Without automation, the Post Office's clients can be expected to look for other more efficient ways of conducting their business. Without radical change the volume of business is projected to fall by up to 25 per cent over the next seven years, with a corresponding decline in profitability. In political terms the option of running down either the rural or the urban network is not attractive; clearly it would be better for the Post Office to take the steps necessary to ensure viability of the business. The revised business plan sets out the primary objective as being "to operate as an efficient, profitable business supplying essentially financial services at a price and a level of quality that ensures its long term viability and meets reasonable customer needs". The key issues in achieving this objective are the size of the network, and the mix between Crown and sub-post offices, reductions in cost, improvements in the quality of service, and automation.

Steps already taken

5. There is already in hand a programme of closing urban post offices announced in 1984. A number of reviews and studies are still in hand for completion later this year on the network size and the possibility of replacing Crown offices with sub-post offices, which are more efficient. There is a related question of whether the Post Office should charge clients more for providing services in rural areas. The Secretary of State is reserving

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judgement on these issues until later in the year, and while there can be no slackening of the pressure towards cost reductions where these do not produce a politically unacceptable reduction in the service, there seems no difficulty in setting these issues aside for the time being.

Further initiatives

6. The crucial matters are whether the management can achieve the cost reductions and quality of service improvements envisaged. There is a risk that automation will be seen as a panacea: it is unlikely in itself to produce significant overall cost reductions even though it is crucial if existing business is to be retained. As already noted, a number of cost reductions measures are already in hand, including in addition to the closure programme improved management and accounting structures, the introduction of through-put targets and a business efficiency deal negotiated with the unions. Sub-post offices in rural areas may go over to part time opening. But the largest item of costs is pay, and the plan assumes settlements at the RPI in the first two years (ie this year and next) and at 1 per cent less than the RPI thereafter. This is a very demanding aim, particularly given the falls expected in the rate of inflation later this year. For the forthcoming pay round the Post Office's latest view is that they will not be able to avoid a settlement about 1.5 per cent above the RPI. If the cost of pay cannot be restrained, there will be a strong pressure on counters to pursue other cost reductions, including closures.

7. The plan also contains a commitment to measures to improve the quality of service, including a programme of capital expenditure. Details are not given, but clearly any cost effective improvements are to be welcomed. Only if the Post Office can give an efficient service will it hold onto clients such as British Telecom who are free to go elsewhere.

8. The Post Office Board are pressing for a decision on the automation proposals. As already indicated, these are essential if the counters business is to remain viable, and there is every advantage in an early decision. The whole programme will cost about £230 million over 7 years, but final authorisation is only being sought at present for a pilot stage costing £29 million. The Secretary of State will therefore have an opportunity to assess progress on cost reductions and service improvements before authorising further expenditure. The preferred option involves firstly automatic tellers for Girobank, and secondly automating information on transactions in the local post office, and transmitting data electronically to the Post Office's clients such as the Department of Transport Driver and Vehicle Licensing Centre. This option is preferred on financial, non-financial and strategic grounds. It is based on known technology which has already been well-proven eg in the environment of the banking system. The funding of the necessary expenditure will need discussion between the DTI and Treasury, who will also of course wish to be assured that it meets the required rate of return. Subject to that, it would seem reasonable for the Sub-Committee to endorse the automation project.

National Girobank

9. The Post Office provides the local network for Girobank. Proposals will be brought forward later about the possible privatisation of Girobank. But whether or not privatisation goes ahead, it is essential that there is an adequate local network, and the success of Girobank is therefore dependant on the counters business, at least in the short and medium term

Other issues

10. When E(NI) discussed counters, they agreed that legislation should be introduced when convenient to extend the counters powers to undertake transactions for other than public sector bodies. This will obviously help them to maximise the use of their

facilities, although it does represent a possible extension of the role of the public sector. The Secretary of State is now seeking authorisation to tell the Post Office Board that the Government intend to introduce this legislation. There is, however, no suitable vehicle to make this change in next year's legislative programme.

HANDLING

11. You will wish to ask the Secretary of State for Trade and Industry to introduce his paper. The Chief Secretary, Treasury will wish to respond, and other Ministers will have views. The Social Services Secretary, who is a major client of the Post Office, has asked to attend for this item.

CONCLUSIONS

12. You will wish to reach decisions on the points identified in paragraph 17 of the paper, ie that:

(i) the Government endorse the general approach of the Counters Plan and its commitment to real price reductions overall and to improved service quality but reserve judgement on the detailed strategies, in particular with regard to pricing, network size and the mix of Crown and sub-post offices;

(ii) the Government agree in principle to its proposals for a programme of counters automation and approve expenditure for the first pilot stage;

(iii) The Department of Trade and Industry and the Treasury should discuss with the Post Office the funding of this expenditure as well as Counters' capital spending more generally, and adjustment to the Post Office's external financing position;

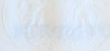
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(iv) the Government are committed to introducing legislation to extend Counters' powers at the earliest opportunity;

(v) the Government will look to the Post Office in its 1987 Plan to discuss fully the outcome of the various studies and reviews currently in hand as well as progress on the automation pilot to enable the Government to review the case for the automation programme as a whole with a view to endorsing it in full and approving its funding.

25 March 1986
Cabinet Office

JW
A J WIGGINS



(iv) The Government are committed to introducing legislation to extend Canada's powers at the national government level;

(v) The Government will look to the West Office in the 1987 plan to discuss fully the outcome of the various studies and reviews currently in hand as well as progress on the automation plan to enable the Government to review the case for the automation program as a whole with a view to endorsing it in full and approving its funding.

W
A. J. WOODS

22 March 1986
Cabinet Office



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CBG



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

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Secretary of State for Trade and Industry

CONFIDENTIAL

14 March 1986

Tony Kuczys Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

NBN

Dear Tony

POST OFFICE OBJECTIVES

My Secretary of State wrote to the Chancellor on 28 February about Post Office objectives.

In discussion between Mr Pattie and the Chairman of the Post Office last Monday, an amendment was agreed to paragraph 3 of the text, dealing with the introduction of private capital into the Post Office. The revised text is attached. This makes more explicit the Governments expectations in this respect (and is, in fact, closer to the text we originally proposed to the Post Office).

The Secretary of State also proposes to amend the reference in paragraph 7 of the text to "the environmental review". This term has proved to be misleading. The text will now refer to "the review of the business environment".

I am copying this letter to Mark Addison, Private Secretaries to E(NI) members and Michael Stark.

Yours sincerely

Bradley

CATHARINE BRADLEY
Private Secretary

JF2BAF

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19 **86**
BOARD OF TRADE
BICENTENARY

POST OFFICE OBJECTIVES

Amended para 3

3 To ensure the most responsive and efficient use of resources, I shall want continually to consider the possibilities for introducing private capital into Post Office activities and I would welcome your positive recommendations in this area. The Post Office should also regularly and critically appraise the scale and nature of the postal network against the background of technological and market developments.

Post + Tels : Future Pt 10 .

POST OFFICE SERVICE

Section 2

To ensure the most responsive and efficient use of resources, I shall want continually to consider the postal office and its increasing presence central into Post Office activities and I would wish your positive recommendations in this area. The Post Office should also regularly and critically appraise the state and nature of the postal network against the background of technological and market developments.



cc 139

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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET
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Secretary of State for Trade and Industry

28 February 1986

CONFIDENTIAL

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

NBM

Dear Nigel

attached

POST OFFICE OBJECTIVES

Agreement has now been reached with Sir Ronald Dearing on a statement of objectives for the Post Office. These are based on the text which Norman Tebbit put to E(NI) last year (ENI(85) 3rd Meeting). The statement takes the form of a letter which I shall write to the Chairman and subsequently publish in Hansard. The agreed text is at Annex A. This has been developed in consultation with your officials and is, I understand, acceptable to them.

With two exceptions, the agreed text is very close to the original draft considered by E(NI). The first exception is the addition in paragraph 2 of material recognising the incorporation, since last July, of Girobank plc as a subsidiary of the Post Office. The second, and more significant, is modification to the form of paragraph 3 dealing with the introduction of private capital into Post Office activities. You know the present state of our thinking on this subject and, as you know, I intend to bring proposals before E(NI) shortly. The present text has been modified only to avoid needless provocation to the unions: this is a very sensitive time in industrial relations in the Post Office, because of the scale of the changes which are in hand. I have personal assurances from the Chairman which I find fully satisfactory and about which I shall be glad to have a word with you separately.

DW4ASY

17
19 **86**
BOARD OF TRADE
BICENTENARY



Unless you or any of our colleagues find any difficulty with the text, I propose to write to Sir Ronald in a week's time in the terms of Annex A. I propose to consult Sir Ronald about the timing of the subsequent announcement (given industrial relations sensitivities) by way of a written PQ and answer.

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

Yours

PAUL CHANNON

Pat

DW4ASY

17
19 **86**
BOARD OF TRADE
BICENTENARY

Sir Ronald Dearing CB
Chairman
The Post Office

POST OFFICE OBJECTIVES

I believe that it would be helpful to you and your Board if I were to expose some of my thinking on the long term direction of the Post Office. In doing so, I have no wish to alter the relationship between the Post Office and the Secretary of State, which is established in existing legislation, nor to purport to assume or limit the Board's statutory responsibilities, nor to direct how they should be discharged. But Parliament has conferred powers on the Secretary of State and, without prejudice to my exercise of those powers in the light of circumstances prevailing at the time, I hope that it will be helpful to you to know the general considerations that will influence my view.

2 I would expect to see the Post Office continue on the course it has adopted towards the separation of the Royal Mails business, the Counters Service and National Girobank, proceeding subsequently to the separation, where appropriate, of discrete business activities within Royal Mails. The financial and performance targets and the external financing limits set by the Government will increasingly reflect this enhanced separation. The Post Office should seek to develop its financial accounting for the discrete businesses within Mails as quickly as possible to the point that separate accounts are shown in the Post Office's published accounts. I regard these developments

as desirable in themselves. I welcome the completion of action to establish Girobank as a Public Limited Company and I wish the Board similarly to press ahead with the incorporation of the Counters business as a subsidiary company. I wish the Board to consider the further application of this principle to its other main activities.

3 To ensure the most responsive and efficient use of resources, I shall want continually to consider, with your assistance, the possibilities for introducing private capital into Post Office activities. The Post Office should also regularly and critically appraise the scale and nature of the postal network against the background of technological and market developments.

4 I believe that the Post Office's prime objective must be to secure the maximum efficiency throughout the business by all practical means including, inter alia, sustained and detailed cost control of all aspects of the Post Office's activities and improved productivity. This will be reflected in the financial and performance targets and in the external financing limits set by the Government.

5 In improving the efficiency with which it uses its resources, the Post Office should reduce the real manpower and other costs of its services and thereby achieve at least the Government's efficiency targets, where set. It should do this while providing the quality of service which gives the best balance between the service provided and the costs of supplying it. In addition, the Post Office should pursue an investment programme designed to support the objectives set by the Government. This programme should be evaluated on the basis of appropriate

investment appraisal techniques, designed to take advantage of technology where this can be demonstrated to produce adequate returns, satisfy any guidelines set down by the Government and have regard to financial limits set by the Government. The Post Office should also seek to realise the full potential of its workforce through the pursuit of productivity schemes and improved practices.

6 The Post Office should make a profit in each year in each of its constituent businesses sufficient at least to meet the Government's published financial targets and should make appropriate profits in those discrete activities subsumed within the wider targets. The Post Office should also seek to ensure that the main elements of its price structure are sensibly related to the costs of supply and the market situation and should avoid cross-subsidy, particularly from monopoly to competitive activities. In addition, the Post Office must continue the development of, and maintain, the necessary information and accounting systems to be able to ensure that it is following sound pricing principles, to ensure that it is able to monitor adequately and speedily the progress of each of its businesses, and in order to report performance through the published accounts.

7 The environmental review, the corporate plans and the examination of strategic options should have a central place in the relationship between the Post Office and the Government. The environmental review should be brought up to date and resubmitted to the Government each December. The corporate plans should be submitted each March. They should fully reflect the financial and performance targets and the external financing limits set by the Government.

8 The Post Office should ensure regular flows of information to the Government and meet the timetables settled with the Government to permit the monitoring of performance generally and specifically, both against the agreed strategies and in relation to the Government's targets and external financing limits.

Secretary of State



Secretary of State



Secretary of State for Trade and Industry

SECRET

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

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

9

SECRET

26 February 1986

The Rt Hon John Moore MP
Financial Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

John Moore

NBP

NATIONAL GIROBANK

Thank you for your letter of 14 February on the possible privatisation of the National Girobank.

I can confirm that I intend to circulate a memorandum to colleagues with a more detailed analysis of a number of areas relevant to the proposed privatisation with a view to a possible discussion in March. The paper will certainly seek to deal with the points you raise.

One aspect of the timing of which you will be aware is the impact of any announcement that privatisation is being considered on the industrial relations climate in the Post Office as a whole. At his meeting with Sir Ronald Dearing in December, Geoffrey Pattie undertook to make no announcement until after the unions had given their response to the Post Office's productivity plans. The unions' consideration of the proposals has slipped since Leon Brittan wrote, and this may effectively rule out an announcement until early May. This will obviously have implications for the rest of the timetable which will be dealt with in my paper.

I have seen Willie Whitelaw's letter of 19 February and am certainly aware of the difficulty of accommodating a Bill in the next Session, but this will obviously be one of the factors which colleagues will wish to take into account in their consideration of our proposals to privatise Girobank.

JFLAWX

17 19 86
BOARD OF TRADE
BICENTENARY



SECRET

I am copying this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and Sir Robert Armstrong.

*Y
ins,
Paul*

PAUL CHANNON

DW2AJJ

17
19 **86**
BOARD OF TRADE
BICENTENARY

POST + TELG

Funerary & Post Office Ad



SECRET



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8

19 February 1986

Prime Minister 2

DW

mb

Dear John

19/2 ~~1986~~

NATIONAL GIROBANK

John Moore's letter to Paul Channon of 14 February refers to a suggestion by Leon Brittan that Girobank might be privatised by November this year, and notes the possible need for a one clause Bill in the current Session as one of the things that will now have to be analysed. I am naturally quite content for that analysis to proceed, but I am sure that colleagues will recognise that it cannot be lightly assumed that even a one clause Bill on such a controversial topic as this can be accommodated in the programme for any session. That is, no doubt, especially true of a heavy session that is well under way. That point would be further reinforced if the Bill also required provisions to deal with Counters privatisation. From the point of view of what can be managed in the House of Lords, at least, I hope that we can all avoid moving to commitments on this until we have a much better idea of precisely what is involved: we do of course know something of it from QL's consideration of the 1986/87 programme.

I am sending a copy of this letter to the Prime Minister, the members of E(NI), the Secretary of State for Social Services, the Solicitor General and Sir Robert Armstrong.

M
Wille

The Rt Hon John Biffen MP

SECRET



7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

NBPN.

4 February 1986

*Dear Paul,***NATIONAL GIROBANK**

Leon Brittan wrote to the Chancellor on 21 January to seek views on the case for privatising Girobank by November 1986. Our officials have now discussed the proposal as Leon suggested.

I fully support the aim of privatising Girobank as soon as possible. I understand that to meet the aim of a November sale you would need to announce no later than March that privatisation was being considered. I assume that before then you will circulate to colleagues a fuller analysis of the issues as a basis for collective discussion if necessary.

This analysis will no doubt include your assessment of industrial relations implications and the possible need for a one clause Bill in the current Session to enable privatisation by November. But I hope that it will deal in particular with the possible consequences of the privatisation for Post Office Counters and its bearing on the Post Office's current proposals for Counters future strategy, viability and demands for public expenditure.

When you do make your announcement on the possible privatisation of Girobank you will no doubt be faced with questions on what sorts of prospective purchasers you have in mind and whether these include, for example, foreign banks, and also what, if any, are our privatisation objectives for the rest of the postal business. We will need to agree a clear line to take on these questions.

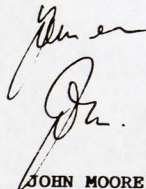
In the meantime I can confirm that if Girobank were to be privatised in November it would not, as a trade sale, present problems for the management of the overall privatisation programme and of the queue for flotations. But we would need to watch carefully that the sales documentation, and the agreement, did not

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give rise to any disclosure problems in relation to the Autumn Statement. Provided the final agreement were concluded after the Autumn Statement this should be manageable.

I am copying this letter to the Prime Minister, other members of E(NI), Willie Whitelaw, John Biffen, Norman Fowler, Patrick Mayhew and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'John Moore', is written above the printed name.

JOHN MOORE

SECRET

POST AND TELE COMM.

FUTURE



OF

THE

POST OFFICE

PT 10



SECRET

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215

5422

(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

WSE
6

21 January 1986

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

Pmie Pinto²

DLV
22/1

Dear Nigel,

NATIONAL GIROBANK

at this stage
Your letter of 17 June, replying to mine of 29 May, agreed in principle to an early sale of Girobank to an individual trade purchaser or consortium. As you know, we have received the Hambros Report on the feasibility of privatising Girobank. Both I and Geoffrey Pattie have looked carefully at Hambros' recommendations, and have come to the firm conclusion that the sale of Girobank this year is a viable and, in view of Girobank's urgent further financing requirements, desirable option.

2 Geoffrey has spoken subsequently to Sir Ronald Dearing, who underlined his own and his Board's preference for retaining the Post Office as a single entity in any privatisation. Should Ministers decide, however, decide to go for a separate Girobank privatisation, the Board would give their full support. While not ruling out the sale of Girobank to a single buyer, their preference was strongly for a management buyout. Whatever the final decision, Sir Ronald undertook to carry out further internal work to prepare for privatisation.

3 Subject to your views, on the basis of the total privatisation programme, I propose that we should aim to achieve completion of the Girobank sale by the end of this year - November is a target we consider realistic. To this end, we need to come to a firm view between ourselves in the next month or so on how we should proceed. I am clear in my own mind that if Girobank is saleable now, we should proceed rather than seek to combine it with the privatisation of other parts or the whole of the Post Office's activities, that could not, in any case, be completed this side of a General Election.

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DW1AMN



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4 There are some complications attached to the Girobank sale, but these are superable if we can decide quickly to proceed. In particular, there may be a need for a one-clause bill to enable the Post Office, which is at present unable to fetter its statutory powers, to give a legally binding undertaking for a reasonable period not to use its powers to set up banking services in competition with a privatised Girobank. I hope this may prove unnecessary. But if, after sounding out potential buyers, merchant bank advisers conclude that a legally-binding agreement rather than, say, a statement of intent would substantially improve the realisation from the sale, a Bill would be needed, with Royal Assent by the Autumn. It would need to be introduced soon.

5 I propose that our officials should get together urgently to discuss these questions.

6 I am copying this to the Prime Minister, other members of E(NI), Norman Fowler, Sir Patrick Mayhew and Sir Robert Armstrong.

LEON BRITTAN

SECRET

DW1AMN

Post + Tels A10

Post Office,



I have the honor to acknowledge the receipt of your letter of the 27th inst. in relation to the proposed amendments to the Bill for the purpose of providing for the issue of postage stamps in the name of the Queen Elizabeth II. I am copying this to the Prime Minister, Lord Salisbury, Sir Patrick Abercrombie and Sir Robert Acheson.

POST OFFICE

SECRET

SECRET

CCBQ
✓LTA
2- NBP7.Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 December 1985

Mike Gilbertson Esq
Private Secretary to the
Secretary of State for Trade and Industry

Dear Mike

CABLE AND WIRELESS SALE

As you will be aware, the sale of the Government's remaining shareholding, about which I wrote to you on 30 October, was announced today. The offer period is scheduled to close on Wednesday 11 December and the Chancellor has asked me to remind you that no public announcements or statements of any sort which contain information about or affecting Cable and Wireless should be made by Ministers or officials before 13 December without the prior clearance of the Treasury. Any failure to observe this will jeopardise the whole operation.

I am copying this letter to the Private Secretaries of all Cabinet Ministers, with the request that they copy it to all Ministers in their Departments. I am also sending copies to the private secretaries of other Treasury Ministers.

Yours sincerely
Tony KuczysA W KUCYZS
Private Secretary

POST + TELECOM.

FILE of Post office

PT 10



I am copying this letter to the Private Secretary of all
 Cabinet Ministers, with the request that they copy it in all
 Ministers in their departments. I am also sending copies to
 the private secretaries of other Treasury Ministers.

It is requested that the prior clearance of the Treasury, and
 that certain information about or affecting trade and
 the Treasury and the Chancellor has been given to be
 given. The effect period is established in cases on
 about which I write to you on 20 October, and
 the date of the Government's response.

*Very sincerely
 Yours
 J. G. [Signature]*

Private Secretary

c/b

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
 The Rt Hon Leon Brittan QC MP
 Secretary of State
 Department of Trade and Industry
 1 Victoria Street
 London
 SW1E 6RB

N 317

25 November 1985

Dec Lem,

POST OFFICE - COUNTERS EFFICIENCY DEAL

You wrote to Nigel Lawson on 13 November about this matter. I have also seen Geoffrey Pattie's letter of 22 November, which deals with some of the points that concerned me about the proposal.

will request if required

I still feel a little uneasy about it. The Post Office are proposing to make payments of up to £275 per man to secure efficiency savings, which they admit may in the end have to be imposed by executive action. I am bound to say that experience to date with the mails deal does not justify the assertion that these changes will be easier to introduce if they are accompanied by a payment to the staff.

However, I accept your judgment that the potential harm to industrial relations caused by imposing the deal would be more costly than making a payment. It is obviously crucial that £275 is the maximum amount conceded - it is vital to ensure that the deal with the counters staff does not provoke the mails staff to seek more. I hope too that the payments will be clearly separated from the annual wage negotiations to avoid repercussions on pay generally in the Post Office. Finally, the cost will of course have to be met from within the Post Office's agreed EFLs and existing financial and efficiency targets.

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

Yours etc,

JOHN MacGREGOR

CONFIDENTIAL

POST + TELS Prio

Future

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Handwritten initials or mark.

Handwritten date: 22 November 1988

POST OFFICE - COMMERCIAL LETTER MAIL



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Handwritten text at the bottom of the page, possibly a signature or reference.

Handwritten signature or initials.

JOHN McCREGOR



CONFIDENTIAL

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

CCB

Secretary of State for Trade and Industry

13 November 1985

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

Prime Minister ²

To note

DEF

13/11

MSB/DEF

De Nigel

ms

POST OFFICE - COUNTERS EFFICIENCY DEAL

The Post Office has reported to my officials on the discussions that it has recently started with the Union of Communication Workers (UCW) and the Communications Managers Association (CMA) aimed at a wide-ranging agreement on the Counters business and clerical and administrative support for both Counters and Mails businesses similar to the Mails Business efficiency deal agreed earlier this year.

2 The Post Office is no less determined to secure this deal than it was to secure the Mails efficiency deal, ^{and} has made clear to the unions that, while it would prefer to proceed by agreement, the reforms it is seeking are essential and it will implement changes by executive action if necessary. Moreover, given the problems of the Counters business, it has made clear that changes need to be made quickly.

3 In order to secure the Mails efficiency deal (and with our agreement) the Post Office agreed to one-off lump sum payments to staff of £275, £100 as a lead-in payment on agreement to the overall deal and the remainder to be paid when justified by savings on a local basis. The Post Office is proposing a similar arrangement on the Counters deal.

4 The payment of £275 would be a very reasonable price to pay for agreement for the essential reforms that the Post office is looking to secure. The Mails precedent makes it unrealistic to expect a settlement for less. I should be grateful for agreement from you and colleagues as soon as possible.

JH3CJC



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

Y
W
W

LEON BRITTAN

JH3CJC

CONFIDENTIAL



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

30 October 1985

Mike Gilbertson Esq
PS/Secretary of State
Department of Trade and Industry
1 Victoria Street
London SW1

NBA.

*Dear Mike***CABLE AND WIRELESS SALE**

The Government's plans for disposing of its remaining shareholding in Cable and Wireless are well advanced, and we now expect the Offer to go ahead at the beginning of December, subject to market conditions.

Following a trawl of departments by officials, the sections of the draft prospectus dealing with Government policies affecting Cable and Wireless are now completed. With the date of the Offer so close, it is vital that, as in previous sales, the release by Ministers or officials of any information about or affecting Cable and Wireless should be tightly controlled. The Chancellor has therefore asked that no public announcements or statements of any sort should be made before the Offer closes without the prior clearance of the Treasury.

The advice governing the purchase of Cable and Wireless shares by Ministers broadly follows that given for the BT, BAe and Britoil issues, and is set out in the annex to this letter.

I am copying this letter to private secretaries of all Cabinet Ministers, with the request that they copy it to all Ministers in their Departments. I am also sending copies to the private secretaries of other Treasury Ministers.

Yours sincerely
Tony Kuczys
A W KUCZYS

ANNEX A

CABLE AND WIRELESS SALE:
PURCHASE OF SHARES BY MINISTERS

There are two key issues: whether it is proper for Ministers to purchase shares in Cable and Wireless and, secondly, what constraints, either legal or of propriety, apply to holding Cable and Wireless shares.

On the first question, Treasury Ministers are clear that they should not purchase shares in the forthcoming Cable and Wireless Offer. Otherwise, they could face a conflict between their personal interest in the outcome of the Offer and their direct or indirect responsibility for decisions which would affect the Offer.

The position is less clear-cut in the case of Ministers who are not directly concerned with Cable and Wireless. But they will want to be guided by the principle laid down in "Questions of Procedure for Ministers" that Ministers "must so order their affairs that no conflict arises, or appears to arise, between their private interests and public duties".

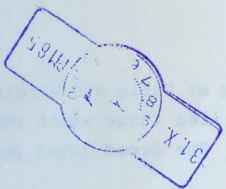
Ministers will find specific guidance in paragraphs 72 and 73 of "Questions of Procedure". Paragraph 73 states that Ministers should "scrupulously avoid speculative investments in securities about which they have, or may be thought to have, early or confidential information likely to affect the price of those securities". Although many Ministers will not have had access to detailed information about Cable and Wireless, there is of course a danger that they may be thought to have inside knowledge. They may therefore conclude that the safest course would be for them not to subscribe to the Offer.

As far as the subsequent holding of Cable and Wireless shares is concerned, the issues are very like those which would apply to the holding of any securities. The broad legal position is as follows:

(i) it is a criminal offence ("insider dealing") for a Crown servant (ie a Minister or civil servant) who has, because of his position, price sensitive information about a company's securities, to deal in them on a stock exchange (here or abroad) unless he can prove he did not intend to take advantage of the information;

(ii) a shareholding in Cable and Wireless may lead to bias which invalidates administrative acts, and may found an action in damages against the Crown.

The advice contained in "Questions of Procedure" is relevant here, too. Ultimately, Ministers must decide for themselves whether it would be appropriate in their circumstances to consider purchasing Cable and Wireless shares but they will want to bear in mind that it is as important to avoid the appearance of conflict of interest as to avoid actual conflict.



As far as the subsequent history of the case is concerned, the issue is not the holding of any securities.

(4) It is a criminal offense ("insider dealing") for a person to disclose to a third party information about a company's securities which is not in the public domain.

It is a criminal offense for a person to disclose to a third party information about a company's securities which is not in the public domain.

The above is a summary of the law in this area. It is not intended to constitute an offer of legal advice.



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

4 September 1985

David Norgrove Esq
10 Downing Street
LONDON SW1

Dear David,

CABLE AND WIRELESS

Your letter of 2 September reported the Prime Minister's agreement, subject to the views of colleagues, to the Chancellor's proposals for the sale of the Government's remaining ordinary shares in Cable and Wireless.

In the Chancellor's minute of 30 August, he said that he expected to make the announcement after the markets have closed on Thursday 5 September. After further consideration, with the Company's financial advisers, it has now been decided that the announcement should be brought forward to 9am on the same day.

A few minor changes have also been made to the notes for editors which will accompany the press release and to the background briefing. I attach a copy of the revised versions, together with the text of the press release itself which is unchanged.

I am sending a copy of this letter to Peter Ricketts (FCO), Christine Heald (Home Office), Andrew Lansley (Department of Trade and Industry), and Richard Hatfield (Cabinet Office).

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

Prime Minister 2

To note the change of time
(though this is not likely to
attract much attention in
Scotland however.)

DRN 4/9

5 cc [initials]
cc [initials]

[Handwritten mark]

DRAFT



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex: 262405

SECRET UNTIL 9AM 5 SEPTEMBER

SEPTEMBER 1985

SALE OF CABLE AND WIRELESS SHARES

The Chancellor of the Exchequer announced today that, subject to market conditions, the Government intends to sell its remaining ordinary shares in Cable and Wireless plc during the current financial year. The sale is part of the Government's continuing programme of privatisation and is in line with the policy (as announced in the House of Commons by the Chief Secretary to the Treasury on 14 March 1984, Hansard Col 420) of selling Government minority holdings in privatised companies as and when circumstances permit.

HM Treasury will be appointing Financial Advisers for the sale. Merchant banks and stockbrokers interested in being considered for this work should write to Mr G E Grimstone, PE2 Division, HM Treasury, Treasury Chambers, Parliament Street, LONDON, SW1P 3AG, by Friday 13 September 1985, enclosing details of their organisation's experience relevant to this appointment. Applications should also give details of the teams which would be concerned with the work and should set out proposals for fees and charges (including nominal hourly/daily rates).

HM Treasury
Parliament Street
London
SW1P 3AG
Tel 01-233-3415

122/85

SECRET UNTIL 9AM 5 SEPTEMBER

NOTE FOR EDITORS

The Government sold 49 per cent of the shares in Cable and Wireless in October 1981 by an underwritten fixed price offer for sale. The Government's shareholding was further reduced to 23 per cent in December 1983, following the sale of 100 million shares by an underwritten offer for sale tender. The Government presently holds 102.5 million ordinary shares in the company.

2. In the prospectus for the 1983 sale, the Government said that it would not sell any more shares in Cable and Wireless in the next two years. This undertaking expires late November this year.

3. The Government also holds a Special Rights Preference Share in the company which requires the consent of HM Government to certain events such as the voluntary winding up of the company, a material disposal of assets, the creation or issue of shares with different rights from those of the Ordinary Shares, and to changes in those Articles of the company which limit the shareholdings of individuals and parties acting in concert to not more than 15 per cent of the issued ordinary share capital. No change is proposed in these arrangements.

4. The Government has consulted the company about its intentions and both the Government and the company are committed to a successful sale and a successful future for Cable and Wireless.

2197/8

DRAFT

CABLE AND WIRELESS SALE
GENERAL BRIEFINGQ1 When will the sale take place?

A1 Subject to market conditions, sometime before the end of this financial year. Precise timing not decided. But Government said in prospectus for 1983 sale that it would not sell any more shares before end-November 1985.

Q2 Will the Government keep the Special Share?

A2 Yes.

Q3 For how long will the Special Share be retained?

A3 For as long as the Government and the company think it appropriate. There is no time limit, and the Government has no plans to ask the Company to consider redeeming it.

Q4 What will be the proceeds from the privatisation programme for this year as a whole?

A4 It is too soon to give any firm estimate. Estimated net proceeds from major sales to date are:

	£ million
British Telecom (2nd call):	1,160
British Aerospace*:	346
Britoil*	431
	1,837

* Includes 2nd instalment due later this financial year

The forecast contained in the 1985 PEWP for 1985-86 was £2,500 million and the programme is broadly on track to achieve this.

Q5 What method of sale will be used? (Fixed price offer for sale, tender, etc?)

A5 No decision taken yet on precise method but the public will have an opportunity to participate.

Q6 Will there be an overseas tranche?

A6 For consideration with the company and with the Government's advisers once they have been appointed.

Q7 Will steps be taken to avoid heavy oversubscription and disappointment for applicants (after Britoil)?

A7 Lessons learnt from previous sales will, as always, be taken into account. Number of applications for recent Britoil sale and other privatisations such as BT, a sign of widespread public support for a successful policy. The Government will be seeking a successful sale that represents good value for taxpayers and for those who purchase the shares.

Q8 Special arrangements for employees and small investors?

A8 No decisions taken. But Government policy to encourage employee holdings and wider share ownership generally.

Q9 Will the sale change the Government's attitude towards Cable and Wireless or affect the company's commercial undertakings?

A9 In no way whatsoever.

Q10 Has the Government consulted the company about its intentions?

A10 Yes. Both the Government and the company are committed to a successful sale and a successful future for Cable and Wireless.

Q11 Will a Government Director be retained after the sale?

[Sir Peter Carey is present Government Director]

A11 This is one of the many matters to be discussed between the Government and the company over the next few weeks.

Q12 Will the company be raising any additional finance of its own at the time of the sale?

A12 This is a matter for the company to consider.

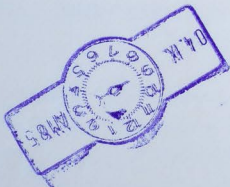
Post & Tels; Future of P.O. #10

Will the Government Director be assigned after the sale?
Will the sale be to the present Government Director?

This is one of the many matters to be discussed between
the Government and the company over the next few weeks.

Will the company be receiving any additional financing of
the sort at the time of the sale?

This is a matter for the company to consider.



S E C R E T

CCND

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NISP
REV
3/9

Foreign and Commonwealth Office

London SW1A 2AH

3 September 1985

Dear Rachel,

Privatisation Programme: Cable and Wireless

The Foreign Secretary has seen the Chancellor's minute to the Prime Minister of 30 August about the proposal to dispose of the Government's remaining ordinary shares in Cable and Wireless. The Foreign Secretary has no objection to the proposed sale. He considers, however, that our overseas posts should be in a position to answer questions from host governments about the proposed sale in good time on the day that the announcement is made.

I am sending a copy of this letter to David Norgrove (No 10), Christine Heald (Home Office), Andrew Lansley (DTI), Sarah Straight (Department of Transport) and Richard Hatfield (Cabinet Office).

Yours ever,

(P F Ricketts)
Private Secretary

Peter Ricketts

Mrs Rachel Lomax
HM Treasury
Parliament Street
Whitehall
LONDON SW1

S E C R E T

POST+TELS Prio

FUTURE



Foreign and Commonwealth Office
London SW1A 2AA

17/2/85
2/2/85
2/2/85

1 September 1984

John Baker

Investigation Programme: Cable and Wireless

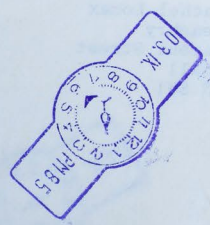
The Foreign Secretary has seen the Committee's advice to the Prime Minister of 20 August about the proposal to dispose of the Government's remaining ordinary shares in Cable and Wireless. The Foreign Secretary has no objection to the proposed sale. He considers, however, that any overseas years should be in a position to answer questions from your Government about the proposed sale in good time as the day that the announcement is made.

I am sending a copy of this letter to David Worsfold (the British Christian Herald (New Office), Andrew Lasker (CMT), Sarah Stewart (Department of Transport) and Richard Bostwick (Capital Office).

John Baker

John Baker

(P 7 Release)
Private and Confidential



TOTAL COPIES 11

SECRET

cc 3

REF No. 2

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

Telephone (Direct dialling) 01-215

GTN 215 5147

(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

SECRET

3 September 1985

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

Dear Nigel

PRIVATISATION PROGRAMME : CABLE AND WIRELESS

Thank you for copying to Norman Tebbit your minute of 30 August to the Prime Minister to which I am replying in order to meet your deadline of 3 September.

2 I have no difficulty with the principle of what you propose which is, as you say, consistent with previously announced Government policy, though I am a little surprised that you chose to consult the company before giving colleagues an opportunity to consider the issues. From my point of view, for example, there remains outstanding the question of an inter-connect agreement between Mercury (now a wholly owned subsidiary of C&W) and British Telecom which is currently under consideration by the Director General of Telecommunications. While this is probably not of sufficient consequence in relation to the totality of C&W's business to affect the sale you have in mind it will need to be referred to in the prospectus.

3 While I am content for the sale to proceed I am very anxious, from the perspective of my sponsorship responsibility for the company, that the board should be fully consulted about the precise timing. This is of considerable importance in the context of the company's pursuit of various business opportunities which could be adversely affected by the constraints imposed on its activities once the prospectus has been signed. There is a feeling at senior levels in Cable and Wireless that they were not adequately involved in the planning of the previous disposal of shares and that this should be remedied on this occasion.

4 I am sending a copy of this letter to the **Prime Minister**, Geoffrey Howe, Douglas Hurd and Sir Robert Armstrong.

J.P.
Geoffrey Pattie

GEOFFREY PATTIE

JFLAEI

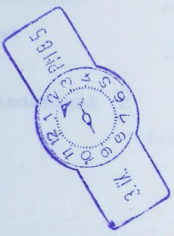
PS/SUR BM
MR Macdonald
MR Rickford
MR Aveny
METHORNTON
MR PHU (CP)
STPI
(OF)
master

NBPM.
D&S
3/9.
Para 2 & 3 don't
mean anything
in context.

POST+TELS A110
FUTURE



DEPARTMENT OF TRADE AND INDUSTRY
115 VICTORIA STREET
LONDON SW1N 0ET



The Rt Hon Nigel Lawson MP
Chairman of the Board
Treasury Chambers
Ballroom Street
LONDON
SW1P 1AG

John Major

PRIVATISATION PROGRAMME : CABLE AND WIRELESS

Thank you for copying to Norman Todd's your minute of 10 August to the Prime Minister to which I am replying in order to meet your deadline of 1 September.

I have no difficulty with the principle of what you propose which is, as you say, consistent with previously announced Government policy, though I am a little surprised that you chose to consult the company before giving colleagues an opportunity to consider the issues. From my point of view, for example, there remains outstanding the question of an inter-connect agreement between Mercury (now a wholly owned subsidiary of C&W) and British Telecom which is currently under consideration by the Director General of Telecommunications. While this is probably not of sufficient consequence in relation to the totality of C&W's business to affect the sale you have in mind it will need to be taken into account in the proposals.

While I am content for the sale to proceed I am very anxious from the perspective of my personal responsibility for the company, that the Board should be fully consulted about the general timing. This is of considerable importance in the context of the company's pursuit of various business opportunities which could be adversely affected by the constraints imposed on its activities once the proposals have been agreed. There is a feeling at senior levels in Cable and Wireless that they were not adequately involved in the planning of the previous disposal of shares and that this should be remedied on this occasion.

I am sending a copy of this letter to the Rt Hon Nigel Lawson, Deputy Home, Douglas Lord and Sir Robert Atkinson.

John Major
JOHN MAJOR



2

10 DOWNING STREET

From the Private Secretary

2 September 1985

Dear Rachel,

Privatisation Programme: Cable and Wireless

The Prime Minister has seen the Chancellor's minute to her of 30 August. She agrees, subject to the views of colleagues, to the Chancellor's proposals for the sale of the Government's remaining ordinary shares in Cable and Wireless.

I am sending a copy of this letter to Peter Ricketts (Foreign and Commonwealth Office), Christine Heald (Home Office), Andrew Lansley (Department of Trade and Industry), Sarah Straight (Department of Transport) and Richard Hatfield (Cabinet Office).

Yours sincerely,

David

(David Norgrove)

Mrs. Rachel Lomax,
HM Treasury.

JB

SECRET



Prime Minister

cc NO
① ② ③

Agree to sale of the remaining C&W shares, subject to news of colleagues? The Chancellor's letter to Mr Ridley about the timing of the BSA sale is at end.

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

PRIME MINISTER

mt
DLN
30/8

PRIVATISATION PROGRAMME: CABLE AND WIRELESS

Since we still cannot be confident about the precise timing of the British Airways sale, given the remaining legal difficulties, I would like to sustain the momentum of the privatisation programme by arranging for the sale of the Government's remaining ordinary shares in Cable and Wireless (C&W), which are held by the Treasury Solicitor's Department on behalf of the Treasury. Subject to market conditions, I believe we should go ahead with the sale in early December, given the likely TSB flotation in January or February 1986.

2. The Government now holds around 23 per cent of C&W's issued shares. The sale would raise something like £½ billion on the basis of the recent share price.

3. We would of course retain the Special Share, which enables the Government to ensure that the Chief Executive is British; to prevent any one person or group of persons acting in concert from controlling more than 15 per cent of the equity; and to veto any material disposal of assets. These arrangements to protect various national interests were put in place at the time of the last sale.

4. In the absence of Sir Eric Sharp overseas, the Finance Director of C&W has been notified of our intention to sell our remaining ordinary shares.

5. So far as the announcement is concerned, to delay until Parliament reassembles would be much too late for a December

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sale since the necessary preparations have to be put in hand well before 21 October. In particular, we will need to appoint a merchant bank adviser by mid-September. The House has of course already been informed (during the 1984 Budget debate) of the Government's policy of selling its minority holdings in privatised companies as and when circumstances permit.

6. I therefore attach the draft of a press release which I propose should go out after the markets have closed on Thursday, 5 September. The announcement does not, of course, mention the particular timing we have in mind for the sale, but refers more generally to a sale in the current financial year, subject to market conditions. I also attach Q&A briefing to deal with press enquiries; this will also be available for use by some of our overseas posts, in countries where C&W run the telecommunications systems.

7. I am sending a copy of this minute to Geoffrey Howe, Leon Brittan and Norman Tebbit and also to Sir Robert Armstrong. Needless to say, until the announcement is made this information is highly market-sensitive and its distribution should therefore be on a strict need-to-know basis. I would be grateful for any comments no later than close of play on Tuesday, 3 September.

8. I am writing separately to Nick Ridley about the implications of the announcement for our public stance on the timing of the British Airways sale.

N.L.

N.L.
30 August 1985

SECRET

DRAFT

SALE OF CABLE AND WIRELESS SHARES

The Chancellor of the Exchequer announced today that, subject to market conditions, the Government intends to sell its remaining ordinary shares in Cable and Wireless plc during the current financial year. The sale is part of the Government's continuing programme of privatisation and is in line with the policy (as announced in the House of Commons by the Chief Secretary to the Treasury on 14 March 1984, Hansard Col 420) of selling Government minority holdings in privatised companies as and when circumstances permit.

2. HM Treasury will be appointing Financial Advisers for the sale. Merchant banks and stockbrokers interested in being considered for this work should write to Mr G E Grimstone, PE2 Division, HM Treasury, Treasury Chambers, Parliament Street, LONDON, SW1P 3AG, by Friday 13 September 1985, enclosing details of their organisation's experience relevant to this appointment. Applications should also give details of the teams which would be concerned with the work and should set out proposals for fees and charges (including nominal hourly/daily rates).

DRAFT

NOTE TO EDITORS

The Government sold 49 per cent of the shares in Cable and Wireless in October 1981 by an underwritten fixed price offer for sale. The Government's shareholding was further reduced to 23 per cent in December 1983, following the sale of 100 million shares by an underwritten offer for sale tender. The Government presently holds 102.5 million ordinary shares in the company.

2. In the prospectus for the 1983 sale, the Government said that it would not sell any more shares in Cable and Wireless in the next two years. This undertaking expires late November this year.

3. The Government also holds a Special Rights Preference Share in the company which requires the consent of HM Government to certain events such as the voluntary winding up of the company, a material disposal of assets, the creation or issue of shares with different rights from those of the Ordinary Shares, and to changes in those Articles of the company which limit the shareholdings of individuals and parties acting in concert to not more than 15 per cent of the issued ordinary share capital. No change is proposed in these arrangements.

SECRET

DRAFT

CABLE AND WIRELESS SALE
GENERAL BRIEFING

Q1 When will the sale take place?

A1 Subject to market conditions, sometime before the end of this financial year. Precise timing not decided. But Government said in prospectus for 1983 sale that it would not sell any more shares before end-November 1985.

Q2 Will the Government keep the Special Share?

A2 Yes.

Q3 For how long will the Special Share be retained?

A3 For as long as the Government and the company think it appropriate. There is no time limit, and the Government has no plans to ask the Company to consider redeeming it.

Q4 What will be the proceeds from the privatisation programme for this year as a whole?

A4 It is too soon to give any firm estimate. Estimated net proceeds from major sales to date are:

	£ million
British Telecom (2nd call):	<u>1,160</u>
British Aerospace*:	<u>346</u>
Britoil*	<u>431</u>
	<u>1,837</u>

* Includes 2nd instalment due later this financial year

The forecast contained in the 1985 PEWP for 1985-86 was £2,500 million and the programme is broadly on track to achieve this.

SECRET

Q5 What method of sale will be used? (Fixed price offer for sale, tender, etc?)

A5 There will be an offer for sale to the public. No decision taken yet on precise method.

Q6 Will there be an overseas tranche?

A6 Possibly. For consideration with the company and with the Government's advisers once they have been appointed.

Q7 Will steps be taken to avoid heavy oversubscription and disappointment for applicants (after Britoil)?

A7 Lessons learnt from previous sales will, as always, be taken into account. Number of applications for recent Britoil sale and other privatisations such as BT, a sign of widespread public support for a successful policy. The Government will be seeking a successful sale that represents good value for taxpayers and for those who purchase the shares.

Q8 Special arrangements for employees and small investors?

A8 No decisions taken. But Government policy to encourage employee holdings and wider share ownership generally.

Q9 Will the sale change the Government's attitude towards Cable and Wireless or affect the company's commercial undertakings?

A9 In no way whatsoever.

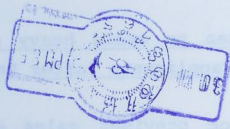
40 Will there be an offer for sale of the public? No decision taken yet on previous period.

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

PS/
Secretary of State for Trade and Industry

12 August 1985

Tony Kuczys Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NB97M

Dear Tony,
MANAGING DIRECTOR NATIONAL GIROBANK

The Chancellor of the Exchequer wrote to my Secretary of State on 1 August, agreeing the salary proposed to offer Malcolm Williamson on appointment as Managing Director of National Girobank on the Post Office Board.

2 The Chancellor mentioned a number of conditions linked to this level of salary, and I am pleased to say that Sir Ronald Dearing has been able to persuade Mr Williamson to accept most of these. A problem arises however, over his pension. It is clearly not to his benefit to transfer his pension rights from Barclays to the Post Office, but to freeze his present pension and start again will give him only fourteen years. This also places his wife and two young children in a particularly vulnerable position in the early years unless he covers this risk at his own expense. In these circumstances, he has asked to be credited with an additional two years for pension purposes.

3 Mr Williamson is already sacrificing a higher salary, a non-contributory pension scheme, many fringe benefits and an assured prospect of promotion within the next few years. In addition, he is taking a considerable risk in joining National Girobank at this stage of uncertainty about its future. Girobank will need a strong leader to hold the management team together, win their commitment and manage the industrial relations situation in Bootle. Sir Ronald is convinced that Mr Williamson is the man for the job and feels strongly that we should not run the risk of losing him for the sake of this relatively minor consideration. I understand that this would only involve £20,000 spread over the next fourteen years. Against this background, Ministers here accept the case made by Sir Ronald and would urge that this

JF4ABI



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proposal should be accepted. In view of the delicate state of negotiations, as early a response as possible would be appreciated.

4 The Chancellor also mentioned the Post Office Board bonus scheme. We accept that Mr Williamson should not participate in the short term but suggest we may need to look at this again when the future of Girobank is clearer.

5 I am copying this letter to Tim Flesher.

Yours ever,
A. D. Lansley

ANDREW D LANSLEY
Private Secretary

JF4ABI

Future of Post Office:

Post + Telecom
Pt 10.



Proposals should be accepted. In view of the delicate state of negotiations, an early response would be appreciated.

4 The Chancellor also mentioned the Post Office Board bonus scheme. We accept that Mr Williamson should not participate in the short term but suggest we may need to look at this again when the future of Girobank is clearer.

5 I am copying this letter to Tim Plesher.

[Handwritten signature]

ANDREW D LARLEY
Private Secretary

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

1 August 1985

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Norman

att.
will request if required - Yes please.

MANAGING DIRECTOR, NATIONAL GIROBANK

You wrote to me on 22 July about the appointment of a full-time Managing Director for National Girobank on the Post Office Board.

I am content with your proposal to appoint Mr Malcolm Williamson. I also accept that a salary of up to £75,000 might have to be paid to attract Mr Williamson, but this must be on condition that he will not also participate in the new bonus scheme for Post Office Board members. I believe this would be reasonable in relation to both Mr Williamson's current earnings and those of Sir Ronald Dearing, and you will recall that I have always had reservations about the adventitious effect of interest rates on the Girobank Managing Director's bonus. I would also expect that Mr Williamson would pay the normal board members pension contributions. Any more favourable superannuation arrangements for Mr Williamson would need to be reflected in a suitable salary adjustment. An initial salary would normally last until the board pay review following the first anniversary of appointment, so I hope that no increase will need to be considered before privatisation.

I am copying this letter to the Prime Minister.

NIGEL LAWSON

Norman
Nigel

Not
1985?
NBDM

PART 9 ends:-

PW to AT 30-7-85

PART 10 begins:-

Ch. Exch to SS/DTI 1-8-85