

PRIME MINISTER

Post Office finances

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

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

Yes
12.

29 October 1979

PRIME MINISTER

cc: Mr. Wolfson
Mr. Hoskyns

POST OFFICE FINANCES

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

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

only
£25-

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

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

/ the £260 m.

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

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

π.

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

(open with the last para of

26 October 1979

) this needs - M.T



PRIME MINISTER

POST OFFICE FINANCES

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

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

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

/co-operation ...



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

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

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

/should ...



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

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

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

/package ...



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

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

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

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

/standing ...



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

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

/clear ...



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

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

KJ

K J

25 October 1979

Department of Industry
Ashdown House
123 Victoria Street

25 OCT 1979

