

PRIME MINISTER

Post Office Finances

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

This is for two reasons:

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

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

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

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

/Sir Keith Joseph

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

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

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

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

*Yes please
out.*

9 October 1979

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