



① We just said refer them to POUNC ;
I don't believe the requested increases are justified in any way.

DEPARTMENT OF INDUSTRY
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17 August 1979

PS/ Secretary of State for Industry

② Refer referring to bonus will be made why 4- letter 20 weeks

PRIME MINISTER

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

Dear Nick,

do change them. I don't believe it should. And the P.O. should not be burdened without consultation.

Here is some fully detailed information from the Post Office - at last. The detailed proposals are at A, background at B, and a note on cashflow measures at C.

THE POST OFFICE

Are you contact with the proposed split in the references to POUNC?
 MS

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

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

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

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

/Although...



CONFIDENTIAL

2.

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

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

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

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

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

*Yours sincerely,
Peter*

PETER STREDDER
Private Secretary

17 AUG 1969



PROPOSED TARIFF INCREASES

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

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TELEPHONE CHARGES

Coinbox Charges

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

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

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

Proposals from Mid-October

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

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

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

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POST OFFICE

TELEPHONE BILLING BACKLOG

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

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

* example attached.

Post Office: Telecommunications
16 August 1979

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YOUR PHONE BILL.

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

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

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

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

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

Post Office Telecommunications