



PRIME MINISTER

POST OFFICE TARRIFS

1 Geoffrey Howe's minute of 21 October commented on my minute of 15 October about the Post Office's proposals for tariff increases. We are meeting later today to discuss the issues and I think you would find it helpful to know that I saw Mr Dearing, the Chairman designate of the Post Office, again yesterday to press him on the scope for savings through more efficient working and for a reduced tariff increase.

2 I am convinced that in Mr Dearing we have at last a Chairman who is able to devote his full attention to the postal business and to give a firm lead from the top in tackling bad labour practices which have developed over many years. For example, the night before last 1000 men went out on unofficial strike at London railway stations as a result of Mr Dearing's plans to cut overtime working. Rather than give way Mr Dearing has said he is prepared to let the dispute increase to the extent of halting mail services in and out of London.

3 I regard it as essential that we should give Mr Dearing every possible backing, although at the same time pressing him hard on the possibility of improving efficiency and cutting costs. It would be tragic if, having appointed a Chairman who is prepared (as Geoffrey puts it) to act on the lines pioneered by Sir Michael Edwardes, we should be seen to undermine his credibility with his Board and the unions by attempting to overrule him on the

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tariff issue. We must also remember that we have no formal powers to block the tariff increase.

4 Mr Dearing offered to cut the requested 2p/2p package to 2p/1½p, which he feels is the absolute limit to which he could go, and indeed he regards it as a high risk strategy, bearing in mind that the view of the postal business management is that an increased 3p/2p is required. An increase of 2p/1½p, which would bring the overall increase down from 19% to 16%, should enable the Post Office, with the help of property disposals and cash management techniques, to meet its 1980/81 EFL despite the revenue loss we have caused by delaying the price increase by a month. The Post Office would only break even on trading, instead of making its target £42m profit.

5 I agree with Geoffrey Howe that there are potentially very high savings to be made in the postal business through increased efficiency, but we must accept that these savings can only be achieved gradually; the inefficiencies in the system are the result of years and years of toleration by management of totally unacceptable working practices; in Mr Dearing's words "because of my inheritance we have to negotiate with the unions if we want to change the colour of the wallpaper".

6 We must also recognise that on the whole Tom Jackson, the General Secretary of the Union of Communications Workers, the main union concerned, has accepted the need of improved working practices. But if Mr Dearing tries to push the UCW too far



too fast it could well engender such resistance as to allow the militants to gain control. Once that happens, and it is a genuine danger (Jackson has had trouble before in carrying his members with him), things could get much worse, as small numbers of people can cause a great deal of disruption.

7 I therefore recommend that we should accept Mr Dearing's offer to go to the Users Council with a 2p/1½p package, 16% overall. Such an increase would be broadly in line with the RPI increase over the last year.

8 I also have it in mind that, when the increase becomes public, I should let it be known that, once I have the necessary powers, probably in July 1981, I shall be disposed to release London business mail from the monopoly unless the Post Office provides acceptable quality of service and keeps its costs under tight control. But I shall want to be sure before making such a threat that its effect on the situation in the Post Office would be helpful rather than the reverse. In any event I shall certainly keep this possibility under review in the light of developments over the next few months. (A derogation in respect of London business mail is more practicable than Geoffrey's ideas about privatising sorting offices - I am, however, considering whether privatisation of the Post Office's Girobank and counter business would be practicable).

9 Officials from the Treasury and Departments of Industry and Trade are following up with the Post Office a number of matters related to performance objectives, including monitoring progress

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in implementing the recommendations in the MMC Report on the Inner London letter post.

10 I am sending copies of this minute to the Chancellor and to Sir Robert Armstrong.

KJ

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October 1980