



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-23301  
SWITCHBOARD 01-212 7676

*Secretary of State for Industry*  
*Mr Dearing*  
*Mr Lawson*

24 September 1981

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Whitehall  
London SW1P 3AG

*Mr Jenkins*  
*Mr Jenkins is reluctant to*  
*press the Po. to confine their*  
*tariff rise to 1p/1p, rather than*  
*1 1/2 p/1p - but only on condition*  
*that their RFL is £27m higher.*  
*He would prefer to stick back*  
*their original proposal.*

Dear Leon,

POSTAL TARIFFS

Nigel Lawson wrote to Kenneth Baker on 18 August asking for a reassessment of the Post Office's proposals for tariff increases. The Prime Minister endorsed Nigel's view as recorded by her Private Secretary's letter of 20 August. *Shell in*

2 Kenneth Baker has held further discussions with Mr Dearing and put strongly to him the Government's concern about the Post Office's shortfall from its performance objective. Kenneth suggested that, had the postal business kept on course to meet its performance objective instead of being about 6% adrift by the end of the current financial year, it should theoretically have been possible to avoid the proposed tariff increases altogether. *Leon Brittan?*

3 Mr Dearing is, of course, as concerned as we are about the history of rising costs in the postal business. He has, however, pointed out that its performance has been affected by the rising wage rates needed to correct the effects of the previous Administration's pay policies and by the need to incur additional man hours to restore the quality of service, which had sunk to an unacceptably low level in the first half of 1979. *Mr Dearing*

4 Since his appointment in May last year Mr Dearing has begun to turn the business round. Tariff increases have been held within the rise in RPI and the last increase, in January 1981, was 5 percentage points less than forecast when he took over. Quality of service has been restored, overtime has been cut and the downward trend in labour productivity has been reversed, with a reduction in 1980/81 of 6 million (2%) in the hours worked compared with the previous year. This has been done against a background of tough management action to remove deeply embedded restrictive labour practices, which has meant standing firm in disputes with the workforce in major city centres, including a





lockout in early August in the London Western District Office. Mr Dearing's objectives for the business entail further reductions in manhours (by 3 $\frac{3}{4}$ % in the current year with more to come in 1982/83), improvement in the quality of service, and progress in the introduction of new services, involving cooperation with the private sector. He is ready to commit himself to achieving a reduction in real unit costs of 2% in 1982/83.

5 I accept Mr Dearing's view that it is not realistic to expect him to recover all the ground lost before he took over in the time left for the present performance aim to run. I believe that we must assess his tariff package in the light of what it is practicable to achieve.

6 Since the Post Office prepared its Medium Term Plan earlier this year it has had a further hard look at cutting current costs and has identified savings for 1982/83 amounting to some £166m, rather more than 6%. The tariff proposal of 9.3% has been made on the basis of these revised forecasts. The Board believes - and I accept - that there is very little room for going further and that the 9.3% tariff package plus an investment programme involving an EFL of £27m is about as much as can be achieved. My Department has already secured the Post Office's agreement to a substantial reduction in its capital programme notwithstanding the need for large scale renewal of rundown assets. If the package were not otherwise substantially changed, however, Mr Dearing would be prepared to reduce certain overseas rates to meet the point concerning the differential between inland and overseas rates in Europe raised in Ian Gilmour's letter of 13 August.

7 Kenneth Baker has explored the scope for some downward revision in the tariff package following the Government's recent announcement of a 4% cash limit on pay in the public services. If it were possible to foresee a slightly lower Post Office settlement than the 5% now assumed in the forecast, the effect on current costs might be £20m, which would make it possible for the Post Office to get by with either a 1p/1p increase or to cut its EFL requirement by about £20m.

8 I have no statutory powers over tariffs but it would be possible for me to press for the £20m saving to be used by way of a reduction in tariff of  $\frac{1}{2}$ p on the first class. However, I must record that, following last year's cuts in Mr Dearing's original tariff proposals, he and his Board are convinced that if the Government were to insist on a second reduction there would be a crisis of authority in the business, thus putting at risk the very real progress he has begun to make. Certainly I would only feel able to press for a reduction in the tariff package if I were able to give Mr Dearing a firm assurance that the Government





would not subsequently insist on a further cutback in his proposed EFL of £27m.

9 Against this background I would be prepared, reluctantly, to pursue with Mr Dearing the idea of a 1p/1p tariff increase but only if this were coupled with an EFL of £27m. An EFL of this size must cause you concern and I would prefer to seek a lower EFL and to accept the Post Office's original bid for a 1½p/1p tariff package. It will take at least three months to submit the tariff package to the Post Office Users Council and to implement the increases within the Post Office. Time is therefore running short if the Post Office is not to run into EFL difficulties in the current year through a failure to implement its tariff package on time. I would therefore welcome your early agreement to my accepting the original 1½p/1p tariff package (with the adjustment to the overseas rates) and an EFL of zero.

10 Copies go to Members of E Committee and to Sir Robert Armstrong.

Yours ever  
Ratcl

22 SEP 1981

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FROM THE  
MINISTER OF STATE  
FOR INDUSTRY AND  
INFORMATION TECHNOLOGY

KENNETH BAKER'S OFFICE

Terry Matthews Esq  
Private Secretary to the  
Rt Hon Leon Brittan QC MP  
Chief Secretary,  
HM Treasury  
Parliament Street, SW1

*Post & Telecoms* AD  
AW  
JU.  
DEPARTMENT OF INDUSTRY  
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TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

*Prime Minister*

*Announced today*

*9* November 1981 *MUS 9/11*

2

*M*

*Dear Terry*

POSTAL TARIFFS

I told you on the telephone on Friday that Mr Baker had seen the Chairman of the Post Office, Mr Dearing, to discuss his response to the report of the Post Office Users' National Council (POUNC) on the proposed increases in postal tariffs. The report is due to be published today.

The report calls upon the Post Office either to defer the increases from 4 January to 1 April or to take 1/2p off the proposed increase for Second Class Mail. Mr Dearing told Mr Baker that he proposed to reject both these courses - the first would result in a failure by the Post Office to meet its EFL and financial target by around £40m in 1981/82 and the second would cost £30m in 1982/83.

Mr Baker pressed upon Mr Dearing the importance of making a positive response to the POUNC report, and Mr Dearing has agreed to defer implementation of the increases until 1 February. This will cost the Post Office some £12m in 1981/82. Given that the Post Office's tariff proposals already require significant improvements in efficiency, Mr Baker considers that this is the most we can expect from the Post Office.

M17/M17ABV





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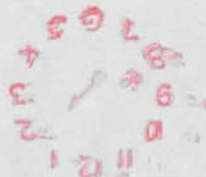
The Post Office has said that even with the deferment it still intends to make every effort to achieve its financial target and keep within its external financing limit for 1981/82. The Post Office propose to announce this today.

I am copying this letter to the Private Secretaries to the Prime Minister, Members of E Committee, and Sir Robert Armstrong.

*Yours sincerely*  
*L Riley*

MRS E A RILEY  
PRIVATE SECRETARY

M17/M17ABV



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Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT DIAL 3301  
SWITCHBOARD 01-211 7676

*cc Mr P...  
Duguid  
Post  
Telecom*

✓  
NBPM  
MUS

2 October 1981

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
Treasury Chambers  
Gt George Street  
London  
SW1A 2ER

Prime Minister  
Foreign Secretary  
E Committee  
Sir Rbt Armstrong  
Mr Ibbs, CPRS

*Dear Leon,*

POSTAL TARIFFS

Thank you for your letter of 30 September.

I have written to Mr Dearing giving our approval for him to proceed with his tariff proposals, subject first to a slight alteration in the overseas rates to maintain the differential between inland rates and those to EEC countries and second to formal acceptance of a new performance aim on the lines you have suggested. A copy of my letter is attached. - *overleaf*

I propose to announce the new aim shortly after Parliament reassembles.

*Yours*

*Kate*





DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
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TELEPHONE DIRECT LINE 01-212 3301  
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Secretary of State for Industry

9 October 1981

R E Dearing Esq CB  
Chairman Posts and National Girobank  
Postal Headquarters  
St Martins le Grand  
London  
EC1A 1HQ

Dear Ran,

POSTAL TARIFFS

You wrote to Kenneth Baker on 28 July seeking agreement to an approach by the Post Office to POUNC with tariff proposals involving increases of 1½p and 1p on the basic inland letter rates.

This is to let you know that Government is content for you to put your proposals to POUNC on the understanding:

- i that the package will be modified slightly so as to maintain at 4p the differential between the inland first class rate and the basic rate to EEC countries;
- ii that the Post Office accepts a new performance aim of a reduction of real unit costs by 5% over the period 1982/83 to 1984/85 including a reduction of 2% in 1982/83 on the lines you have already indicated to Kenneth Baker.

I would be grateful for your acceptance of these conditions before you make a formal approach to the Users' Council.

Your sincerely  
Peter Hill





*cc A Duguid  
J Vicker  
A Watters.*

Foreign and Commonwealth Office  
London WC1

2 October 1981

*NBPM*

*Dear Patrick,*

POSTAL TARIFFS

I have seen your letter of 24 September to Leon Brittan which proposed that under the new tariff structure the rate to Community countries should be adjusted so as to maintain the present differential with the first class domestic tariff. Ian Gilmour wrote to Kenneth Baker about this on 13 August.

I am glad that Mr Dearing has recognised the force of the arguments over the Community rates and am grateful for his readiness to keep the differential constant. However, I still hope that we can gradually decrease this difference so that we eventually apply our internal postage rates to intra-EC mail in the basic weight steps.

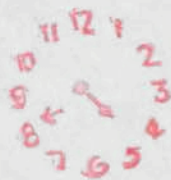
Copies of this letter go to members of E Committee and Sir Robert Armstrong.

*Yours ever*

The Rt Hon Patrick Jenkin  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB



5 OCT 1981







*Mr Dearing*

*Mr Wolfson*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

30 September 1981

*R. Patrick*

POSTAL TARIFFS

Thank you for your letter of 24 September.

I think we all recognise that Mr Dearing has made a good start at the Post Office but, as I am sure he would be the first to agree, a great deal remains to be done even so.

There are two aspects of your proposals that caused me concern. The first was that, while scrapping the present real unit costs performance aim as unattainable, you were being offered in return only a promise of a 2% reduction in real unit costs in 1982-83 and nothing definite thereafter. Accordingly my officials have been pursuing this point with yours and I now understand that Mr Dearing is prepared to commit the Post Office to reducing its real unit costs by 5% over the period 1982-83 to 1984-85. I see that as a very significant advance on anything yet achieved, with important implications for the improved postal productivity we all want to see.

Given that undertaking and the way that it will add to the pressures that your proposals will already put on the Post Office to conclude a pay settlement in low single figures in the current round and mount a sustained attack on their current costs, I am prepared to accept your proposal that the Post Office should be allowed to put forward its 1½p/1p tariff increases as set out in paragraph 9 of your letter.

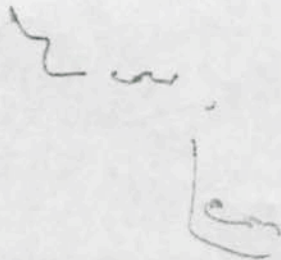
However I remain extremely concerned about the Post Office's proposed EFL for 1982-83. An EFL of zero as you propose still falls far short of the levels which we agreed at E Committee the Post Office should be aiming for. While I am willing (as I say) to accept the tariff increases, I must press for the Post Office, whether by larger reductions in current costs or, if need be, by further reducing investment, to take whatever steps are needed to achieve the target we have set them.



CONFIDENTIAL

My agreement is of course also conditional on the Post Office's being formally set an aim to reduce real unit costs by 5%, and I should be grateful for your confirmation that you intend to do this.

I am sending copies of this letter to the Prime Minister and to other recipients of yours, and also to Robin Ibbs.

A handwritten signature in dark ink, appearing to read 'Leon Brittan', is written above the printed name.

LEON BRITTAN

CONFIDENTIAL



30 SEP 1987

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CONFIDENTIAL



10 DOWNING STREET

cc D/N DOT  
CSO LPO  
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From the Private Secretary

25 September 1981

Postal tariffs

The Prime Minister has read your Secretary of State's letter of 24 September to the Chief Secretary. She has noted Mr. Jenkin would be prepared, albeit reluctantly, to pursue with the Post Office Chairman the idea of a 1p/1p tariff increase; but only if this were coupled with an EFL of £27 million; but that he would prefer to accept their original 1½p/1p tariff package and an EFL of zero.

The Prime Minister has not reached a view as between these two alternatives, and she is content for the matter to be settled between your Secretary of State and the Chief Secretary.

I am sending copies of this letter to the Private Secretaries to the members of E and to David Wright (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,  
Department of Industry.

CONFIDENTIAL

JD



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

*Post. Telecom*  
cc HO MOD  
FCO DOE  
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LPO  
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20 August 1981

*Dear Jonathan*

The Prime Minister has seen a copy of Mr. Baker's letter of 7 August to the Chief Secretary about postal tariff increases. She has also seen the Lord Privy Seal's letter of 13 August and the Financial Secretary's letter of 18 August commenting on the Post Office's proposals.

The Prime Minister shares the Financial Secretary's concern about the way these proposals seem to have evolved. She would like to see them re-appraised on the basis suggested by the Financial Secretary.

I am sending copies of this letter to Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

*Yours ever*  
*Mike Palliser*

J.C. Hudson, Esq.,  
Department of Industry.

CONFIDENTIAL



PRIME MINISTER

Kenneth Baker has written round to 'E' members (Flag A) reporting a Post Office request for approval to refer further price increases to POUNC. These would be 1½p on a first-class letter and 1p on a second-class letter, with broadly corresponding increases on other major services. They could, say Industry, be expected to add well under 0.1% to the RPI. The effective date would be 4 January next.

The Lord Privy Seal (Flag B) sees an objection in EC terms. Mr. Lawson (Flag C) is wholly dissatisfied with the basis of the proposed increases, and asks that the Post Office be instructed to re-appraise the whole thing. It seems that there are a few weeks in hand.

Do you wish to endorse Mr. Lawson's request that the Post Office be asked to do their homework properly before coming forward with proposals?

*Yes please*

*MA*

19 August 1981





Treasury Chambers, Parliament Street, SW1P 3AG

Mr Kenneth Baker MP  
Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1

18 August 1981

*Dear Minister,*

POSTAL TARIFF INCREASES

I am replying on behalf of Leon Brittan to your letter of 7 August.

The 1½p/1p tariff increases you propose may well be less than at the last round, and within the expected movement of the RPI. But that is little consolation after the massive increases in July 1980 and January of this year.

Moreover I am less than happy at the way these proposals seem to have evolved, and so less than convinced that anything like the full extent of these increases is in fact needed. The starting point seems to have been the expected movement of the RPI, and, geared to that, an 8% pay assumption; thus we find that the increases proposed would not only, as you say, leave the Post Office £85m short of its financial target in 1982-83, but also - to the best of my knowledge - leave it nearly 7% off course for meeting the performance aim we have set it, to hold real unit costs steady over the five-year period to 1982-83. This is a quite unacceptable position which we should find most difficult to defend.

Should we not approach all this the other way round? The starting point must surely be a requirement that the Post Office should meet the financial and performance targets which the Government have set them; in a monopoly industry tariff proposals will be a derivative of that requirement. This year we have also to take account of our general approach to nationalised industries' pay, as set out in the paper circulated by the Chancellor on 4 August, and to be further discussed at No.10 on 7 September - our object being to look for increases substantially below the last round. On that basis, we should still be looking for substantially larger productivity improvements from the Post Office in both this year and next, than those you speak of. The



case for these remains very strong in their own right given the MMC's findings. And the tariff increases derived from the process I have described should be considerably lower than those the Post Office have now put forward.

If there are good reasons why it is impracticable to expect the Post Office to meet the targets we have set them, then I think we need to know what those reasons are and to consider carefully whether we can accept them. My officials recall being told by the Post Office management a year ago, of their resolve to get back on course for the performance aim, difficult though that task would be; since then, mail volume has held up better than expected in the recession (it is in any case not very GDP-sensitive), and productivity deals with the unions have gone through generating useful improvements in costs; so it is not at all clear why the management's resolve now seems to be failing and why we should not look to continue or, perhaps, accelerate the process. You acknowledge, when speaking of the financial target, that further economies will anyway be necessary.

May I, then, ask you and the Post Office to look at the tariff proposals again, on the basis I have suggested? I realise that, in doing so, I am saying that Mr Dearing cannot now expect to put his proposals to POUNC on 26 August. But I understand that there is scope for something like a month's slippage in the Post Office timetable before their dateline for introduction of the new tariffs, 4 January 1982, is in danger. In any case, what matters is to get this right.

I am sending copies of this letter to the Prime Minister and other recipients of yours.

*Yours sincerely,*

*D. L. Willetts*

NIGEL LAWSON

11

*(Approved by the Financial Secretary  
& signed in his absence)*





*Prof. Teleremma*

*NBPM 4/11  
MAJ  
14/11/81*

*cc. A. Walker  
A. Duguid  
J. Vasekaf-*

Foreign and Commonwealth Office  
London SW1

13 August 1981

*K. Kennem.*

POSTAL TARIFF INCREASES

I have one comment on the tariff charges outlined in your letter of 7 August 1981 to Leon Brittan.

I understand that the proposed increase of 1.5p in the domestic first class rate is to be accompanied by a larger increase of 2p in the rate to other Member States less Ireland. Their effect will be to increase to 4.5p the differential between the internal first class rate and that to the EC Nine less Ireland. This comes after the changes on 1 January 1981 which widened the then differential of 1.5p to 4p. This is occurring at a time when the Commission have recommended that Member States charge the same internal postage rate for intra-Community mail in the basic weight step. Adoption of this recommendation would be a small but useful step in demonstrating that the Community is one market to which we are firmly committed. The financial difficulties of the Post Office notwithstanding, I believe it is an error at this stage of our Community membership to move further away from this laudable objective. If 19.5p is considered a difficult rate for Community destinations, could not the Post Office be encouraged to set a 19p rate, thus reversing the recent unfortunate trend?

Copies of this letter go to the recipients of yours.

*your ✓  
/a*

Kenneth Baker Esq MP  
Département of Industry  
Ashdown House



14 AUG 1961







FROM THE  
MINISTER OF STATE  
FOR INDUSTRY AND  
INFORMATION TECHNOLOGY  
Kenneth Baker

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
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London  
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DEPARTMENT OF INDUSTRY  
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*Mr Vereker  
Mr Walters  
Mr Duguid*

*11:30pm yet -  
wait for  
Toby  
RF 14/8*

*Post +  
Tels*

7 August 1981

*Leon Leon*

POSTAL TARIFF INCREASES

The Post Office has sought our approval to put forward to the Post Office Users' National Council proposals for price increases averaging 9.3%. They would take effect from 4 January 1982. The increases would entail 1½p on a 1st class letter, 1p on a 2nd class letter, bringing the cost of the stamps to 15½p and 12½p, and broadly corresponding rates of increase on other major services. They could be expected to add well under 0.1% to the RPI.

Even allowing for the fact that the last increases were implemented on 26 January 1981, the current proposals at 9.3% would appear to be well within the likely increase in the RPI (some 10-11%) between January 81 and January 82. The additional income arising from the increase in 81/82 (£40m) would enable the Post Office to meet its financial target. It would not on unchanged assumptions meet its External Financing Limit, but my officials have discussed this with the Corporation, and have been assured that measures will be taken to ensure that the EFL is met.

The package is not without its risks. It requires successive productivity improvements of 2.2% in 1981/82 and of 3.0% in 1982/83 respectively, and assumes that the Post Office's marketing ability can maintain business volume at the 1981/82 level; and a pay increase of 8% on basic rates. The momentum of introduction of productivity schemes (which now cover a third of rank and file staff) will need to be maintained. But, even on these assumptions, in 82/83 the increases would still leave Posts with a shortfall of some £85m from its financial objectives, and further economies would be necessary so that any further increase needed in January 1983 could be held to reasonable levels.





The proposed tariff changes seem acceptable, and the Post Office's achievement in confining them to just over 9% reflects the success of the measures which it has taken this year both to improve productivity and working methods, and to stabilise a potentially declining business volume. I am therefore minded to tell the Chairman that he is free to put the proposals to the Post Office Users' National Council.

Mr Dearing would like very much to announce submission of his proposals to the Council at the time of publication of the Post Office's Annual Report and Accounts - planned for 26 August. It would therefore be helpful if you and those to whom this letter is copied could give as early a response as possible.

Copies go to the Prime Minister, to Members of 'E' Committee, and to Sir Robert Armstrong.

*Tanner*

KENNETH BAKER

*Kenneth*

- 1 AUG 1961

