



cc 100

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

CONFIDENTIAL

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AH

Prime Minister ⁽⁴⁾

To note. I have asked Treasury to ensure that date of increase in stamp prices is kept far away from announcement of implementation of sterling demonetisation of 1/2p.

19 March 1984

AT
20/13

David [unclear]

[Handwritten signature]

POSTAL TARIFF INCREASES

The Post Office has sought our approval to put to the Post Office Users' National Council proposals to increase the first - and second - class postal tariffs from 16p/12½p to 17p/13p with effect from 13 August 1984.

With demonetisation of the ½p, the Post Office are faced with only two realistic options for the second class mail, 12p or 13p. I originally pressed Mr Dearing to consider the 12p option but I have been persuaded that the cash loss involved would be too damaging to the Post Office finances. Accordingly, I am satisfied that 13p is right for second class mail. On the same basis, I accept that the first class tariff needs to be increased to 17p. This then leaves the question of timing.

The increase in inland letters is equivalent to 4.5% on an annual basis, after allowing for some loss of overall traffic as a result of the price increase and some switching from first class to second class as a result of the widening of the differential. The Post Office also proposes to increase inland parcels tariffs by 2% and overseas mail by 5%. The weighted average increase for all of the mail services is 4.2%. Deferring the increase until 13 August reduces the revenue effect in 1984/85 to 2.6%.

The proposals are based on the Post Office achieving its 4% return on turnover target for 1984/85 and on meeting its EFL. In addition, they will need to deliver a reduction in real unit costs of around 2½% which, on current forecasts, will take them to 5½% over the three years to 1984/85 as opposed to the 5% target.

The Post Office had originally prepared its tariff proposals on the basis of meeting the 5% RUC target. But they also included a 5% pay assumption. When I saw Ron Dearing recently, I told him

M36/M36AAV



CONFIDENTIAL

that we regard this as excessive and that somewhere in the region of 3% to 4% would be more appropriate. He sees real difficulties over pay this year and regards even 5% as ambitious. He pointed out that his budgets had been set on the basis of being able to control non-wage costs very rigorously while containing the pay bill increase to 5%. He expressed fears that a bitter pay campaign could lead to pressures on non-wage costs and indeed on overtime hours. Nevertheless, he agreed to recast his proposals on the basis of a 4½% pay assumption and as a result, to defer the increase to 13 August, from his original proposal of 9 July.

I believe that the proposed tariff increases are reasonable and that the Post Office's achievement in holding prices for a 16 month period is commendable. Although the pay assumptions are higher than we would wish, the assumptions on efficiency will be difficult to achieve without a great deal of effort on the Post Office's part. I would therefore like to tell the Chairman that he is free to put the proposals to the Posts Office Users' National Council. I should be grateful for your comments as soon as possible.

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

Zimmer

Kenneth

KENNETH BAKER



Copies to:

PS/Sec. of State
PS/Mr Trippier
PS/Sir Brian Hayes
Mr Croft
Mr Leeming
Mr Parsons (on file)
Prime Minister
Members E
Sir Robert Armstrong

NBPN
AT
cc NO.
F

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7577

From the Minister of State
for Industry and Information Technology

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AH

cc Mr Leeming
Mr George
Mr Croft
Miss Smith
Mr Parsons

28 March 1984

POST OFFICE TARIFFS AND PAY

Thank you for your letter of 23 March suggesting that the Post Office might be invited to recast its tariff proposals on the basis of a 3-3½% pay assumption. You raised the possibility of 16p/13p from July.

2 As I said in my letter of 23 March to the Chancellor, which crossed with yours, I have made it clear to Ron Dearing that I wanted to see a pay settlement at or below 4% and that he should not make an offer above that figure. My expectation is that he will come back to me during his negotiations with the UCW and report that he is unable to settle on that basis and that he needs to increase his offer. However, I have made it clear that 4% is not just a trigger point for reporting back on the way to a higher settlement: it is the maximum level to which the Government is prepared to see him go. It is my intention to press him hard on this point if he should come back to me and to stress that he should stand and fight at 4% and, if necessary, withstand any industrial action that might result.

3 In my view, the Post Office is being asked to play its part in our public sector pay strategy by holding the line at 4%. On present plans for volume growth it will add only 1½% to unit labour costs; and a 4% settlement would not undermine the position which British Rail are reported to be taking; nor would it give comfort to the NUM. It would continue the downward movement of settlements and improve on the local authority manuals. On that basis, I would not wish to go back to Ron Dearing and suggest that he looks for a 3½% settlement.

4 On the question of the tariff, Ron Dearing really would find it intolerable to have Government insisting not only on how much revenue he could raise but also on the detail of



the tariff structure by which he should obtain it. It is already too late to give the required three months notice for 16p/13p to raise enough revenue to cover a 4% settlement. The right course is to leave the tariff at the 17p/13p preferred by Ron Dearing for good operational reasons but to delay its introduction beyond 13 August in the event of a 4% settlement. In the circumstances, I would suggest that we might leave the tariff issue for a couple of weeks to see how negotiations with the UCW develop.

Turner

KENNETH BAKER

Baker

POST & TELE 158

future

2 APR 1984



CONFIDENTIAL



CC NO
PPS
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Mr Mock
Mr Burgner
Mr Scholar
Mr Redley
Mr Portillo Mr White

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Minister for Information Technology
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

23 March 1984

Kenneth Baker

POSTAL TARIFF INCREASES

I am concerned at the freedom the tariff proposals set out in your letter of 19 March would give Ron Dearing and his Board in the pay negotiations they are about to enter.

As you say, 17p/13p from 13 August would allow for a settlement this Spring of 4½ per cent. Such a high figure would not be welcomed given the general level of settlement we are seeking in other parts of the public sector.

In my view, Ron Dearing should be asked to reconsider the case for an earlier and lower tariff increase which would allow room only for a more acceptable settlement with a pay bill effect of some 3-3½ per cent.

I am advised that this could be achieved by a tariff package of 16p/13p effective from 9 July, which would also make it easier for the Post Office to meet its real unit cost target.

My proposal would reduce the tariff change to simply rounding up the 2nd Class stamp from 12½p to 13p (a move much predicted in the Press when we announced in February the withdrawal of the ½p coin from issue this month) leaving the 1st Class stamp at 16p, the level it was set at in April 1983. I would hope that the new tariff could then be held well into 1985-86.

CONFIDENTIAL

CONFIDENTIAL

Bringing forward the tariff change to July would also keep a good separation between it and the formal announcement on the demonetisation of the $\frac{1}{2}$ p coin. This should be made in the autumn to take effect by the end of the year.

Given the need to allow 3 months for consultation, Ron Dearing must be put in a position to approach POUNC early next month if a tariff change in July is to be achieved. I trust that you, sharing my concern on pay, will be ready to put the 16p/13p proposal to him quickly as that which the Government is prepared to see go forward.

I recognise that the Post Office may argue that the change I propose would produce the wrong kind of differential between 1st and 2nd Class mail. However, given the way this differential has fluctuated in the past, I do not believe this could be an overriding consideration.

*Yours sincerely
Peter Rees*

PETER REES

CONFIDENTIAL

POST & Teles PT8

future

-2 APR 1984

