

Prime Minister (2)

The Post Office Corporate Plan is now being discussed at an E(NI) meeting under the Chancellor's chairmanship. Nevertheless you might like to see the issues being debated.

PRIME MINISTER

AT 23/7

23 July 1985

THE POST OFFICE

The Post Office (PO) is moving towards the establishment of three separate businesses - Mails (ie post), Counters (ie post offices) and Girobank. Within Mails, DTI are rightly pressing for further disaggregation. Hopefully, some results from this should be available next year when it should also be possible to see the effect of the new PO productivity deal. Given a fair wind and some political will, Girobank could also be sold before then. The E(NI) this year should therefore concentrate on Counters.

Counters comprises 1,500 crown offices, 8,500 sub-post offices and 11,000 rural post offices - six times more outlets than the largest of the banks (National Westminster). On current overhead allocations the crown offices cost 20% more per transaction than (the generally profitable) sub-post offices whilst 85% of the rural post offices lose money for the PO. The DHSS accounts for one-third of all Counter revenue, Mails for 21% and Girobank for 16%.

Crown Offices

The 1,500 crown offices are wholly run by the PO and employ some 10,000 staff. DTI want to transfer all bar a handful of these to the private sector. Sale of the properties should raise at least £100m and potentially a further 3,000 support staff could be saved. The unions won't like it, but it seems a sensible and overdue measure.

Urban Sub-Post Offices and Automation

The PO are in the middle of closing 1,000 urban sub-post offices but still need to close more for long term

viability, (there is no shortage of volunteers). The major threat is the computer driven financial services explosion from building societies and the like. If the counter service is to remain competitive then it must also automate and fight for this same business. The plan is to spend £250m introducing terminals to virtually all of the urban offices (but not the rural ones), starting in the Thames Valley in 1987. The automation must not just meet PO needs but also cater for potential clients such as insurance companies and building societies. Norman Tebbit is not yet fully satisfied with the detail of their plan but this must be the right strategy.

The Sub-Postmasters' Contract

The PO currently run sub-post offices on the basis of a 1908 agreement whereby sub-postmasters, although paid principally on the basis of turnover, are treated as quasi employees of the PO. The PO want to move to a purely customer/supplier relationship, preferably without any minimum payment. Provided the PO also remove all restrictions, not just on opening hours, but also on the ability to deal in competitive areas, (eg take on any building society agency) - then this will foster entrepreneurs and is to be commended.

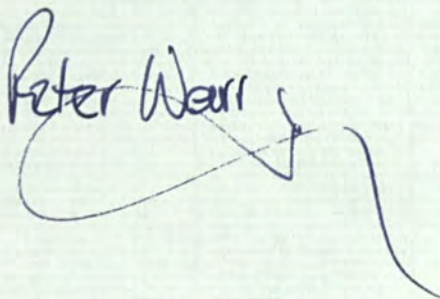
The Rural Network

The rural network currently costs the PO £40m pa. Whilst there is only a thin economic and moral case for supporting village life in this way, it would be anomalous to single out the PO when rural telephones, electricity, rail etc are all subsidised. Nor would it be good politics. Any change will be potentially explosive and unless it is saleable to the rural lobby it may be better not to tamper.

DTI would like to remove the cross subsidy whereby the DHSS, (and other customers), are effectively charged the same price for paying benefits in the town as the country. If town prices more accurately reflected costs then the DHSS would be given the right economic message, and if it were still cheaper to persuade people to open bank accounts than use the Post office then so be it.

In the country they would like the DHSS to pay a flat fee almost independent of the volume of transactions. In effect a straight subsidy from the DHSS for keeping post offices open. This is unfair on the DHSS - if the DHSS cannot persuade enough people to accept payment by cheque then it might well be cheaper to have a travelling payments van, rather like the travelling library.

Nor does it give the right message to the sub-postmaster who would have little incentive to improve his service. If rural POs are to be subsidised we would prefer it be a flat sum (paid by the PO) plus a higher transaction fee paid by the customer (eg DHSS). The subsidy would need to be set separately for each post office such that initially total remuneration remained unchanged. This would provide incentive and give the right economic message. If post offices then closed it would be the owner's decision, not the Government's.

A handwritten signature in blue ink that reads "Peter Warry". The signature is stylized with a large, sweeping flourish that extends downwards and to the right.

PETER WARRY