

CC NO



NBP 7

AS 25/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1E 6RB

*Norman Tebbit*

24 July 1985

**POST OFFICE: TARIFFS AND TARGETS**

Thank you for your letter of 22 July which records the outcome of our discussion earlier that day. Paragraph 3 of your letter states that the extent of the tariff reduction will depend on the position at the end of the financial year. As I explained when we spoke, you will need to lay the ground carefully so that if the Post Office is unable to extend the period of the reduction this is also shown as a purely commercial decision which rests squarely with the management and employees.

I am grateful to you for your undertaking to reduce the Post Office's IFR bids to at least baseline.

I should also confirm that following our discussion I am now prepared to agree to the financial and efficiency targets for 1985-86 which Geoffrey Pattie recommended in his letter to me of 25 June.

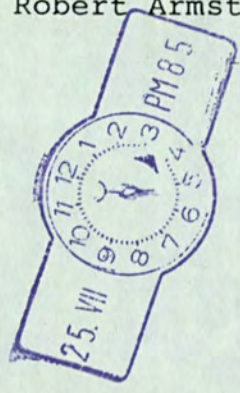
Geoffrey Pattie also wrote to the Chancellor on 24 June about the performance-related bonus scheme for Post Office Board members. I have confirmed with the Chancellor that, now we have agreed targets, he is broadly content with Geoffrey's proposals for 1985-86 although we consider it premature now to be setting a bonus scale for the Managing Director/Giro Bank. We suggest that we come back to the bonus arrangements for this post when a salary for the recruit is settled. Our agreement to Geoffrey's proposals is also on the understanding that the bonus element related to quality of service targets only becomes payable if both the 1st and 2nd Class mail targets are exceeded consistently throughout the 6-monthly periods.



Rost + Telecomm <sup>25</sup> Future Pt 9

RESTRICTED

I am copying this letter to the Prime Minister, E(NI) and Sir Robert Armstrong.



*Yours truly  
Peter Rees*

PETER REES





DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET 5422  
 TELEPHONE DIRECT LINE 01-215  
 SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

22 July 1985

The Rt Hon Peter Rees MP  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON  
 SW1P 3AG

Prime Minister<sup>(2)</sup>

To note that Mr Tebbit  
 and Mr Rees have agreed  
 that the second class stamp  
 can be reduced by 1p provided  
 the excess bid is eliminated

AT 22/7

D Peter

POSTAL TARIFFS

We discussed this question, following my letter to you of 19 July, and, as agreed, I am writing to set out how I propose to proceed. Given the urgency for the Post Office now to print their Christmas stamps, and the desirability for us to announce the PO targets for 1985/86, I regret that there is not time for further formal consultation with E(NI) colleagues.

2 I will now tell Sir Ronald Dearing that he can announce tomorrow, as he has proposed, that the price of second-class post will be reduced by one penny from 4 November to the end of this financial year, i.e. end-March. This will be presented as a business proposition by the Post Office, and put in the context of an incentive to consumers at the time of the Corporation's 350th Anniversary celebration.

3 I shall, at the same time, make clear to the Post Office that I have undertaken to get their EFL's for future years back to baseline. As to the extent of the tariff reduction, the position after the end of the financial year will depend on the business environment, volume performance, efficiency improvements and the PO's financial obligations.

4 I am copying this letter to the Prime Minister, E(NI) colleagues and to Sir Robert Armstrong.

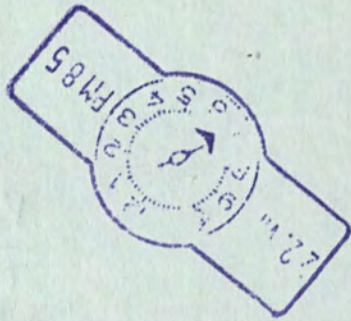
*ef ever*  
*Norman*

NORMAN TEBBIT

JH1CQZ



Post + tras Pt 9  
" " future







CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

5422

TELEPHONE DIRECT LINE 01-215

SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

19 July 1985

NDPM

BT 23/7

The Rt Hon Peter Rees MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*D. Peter,*

POSTAL TARIFFS

I have seen a copy of your letter of 18 July to Geoffrey Pattie.

2 I note that you have some difficulties with Geoffrey's proposal, as put forward in his letter of 25 June. I have to say that I should have difficulties, if I were to have to say to the Post Office that they should not implement a proposal which would be popular, make a modest contribution to holding down the costs of industry and others, and would be well within their financial commitments. The refusal of Government to provide this benefit to consumers, which would be sure to become known, would be, in my view, a lamentable misjudgement.

3 As you know from our recent discussions in E(NI) on the IFR bids, and from my very recently circulated papers to E(NI) on Post Office objectives and Corporate Plan, there are unpalatable decisions which we shouldoblige the Post Office to take, in order to bring it to fuller economic efficiency. I will, in that context, seek to bring the Post Office back to their EFL baseline in 1986/87 and for later years. I hope that you will find this assurance helpful.

4 But I could not accept your proposed increase in the profit target and EFL adjustment for 1985-86. It would run counter to the review of the profit target which we are conducting. It would be very damaging to our relations with the PO Board, and to their still-fragile, but improving, industrial relations position. I must press you for your every early agreement to Geoffrey's proposal, in view of the urgency of this if the timetable for the Christmas issue is to be met.

6 I am copying this letter to the Prime Minister, members of E(NI), and to Sir Robert Armstrong.

*Let's be popular for a change!*

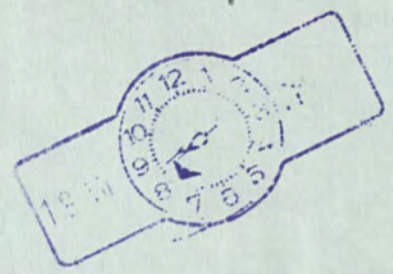
*[Handwritten signature]*

NORMAN TEBBIT

JF5AAC



Future of post Office: Post + Telecoms  
ptg







NBPM

RT 19/7

CCNO

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP  
 Minister of State for Industry and Information Technology  
 Department of Trade and Industry  
 1 - 19 Victoria Street  
 London  
 SW1E 6RB

*John Geoffrey*

18 July 1985

POST OFFICE: TARGETS AND TARIFFS

Thank you for your letter of 25 June about Post Office targets and for your letter of 8 July about a proposal to reduce the second class mail tariff by 1p from November.

I have some difficulties with this tariff proposal. I am not persuaded that it is now an appropriate time to consider a tariff reduction nor that there is a sound financial and economic case in support of the particular reduction that is being proposed. As you mentioned in your letter of 25 June our officials are reviewing the formulation and the level of the Post Office's profit targets from 1986-87. You argued in your letter of 30 April to me that the outcome to this review could have significant implications for tariffs. It is surely premature now to be considering a one-off and possibly very temporary adjustment to the second class tariff before our officials have reported to us and before we are in a position to form a sensible judgement on how their conclusions impinge on tariffs and on the possibilities for improving service standards rather than holding tariffs down.

Your argument in support of this tariff proposal is that it is necessary to ensure compatibility with the Post Office's performance and financial targets. I have yet finally to agree to the target proposals you make in your letter of 25 June and they are not yet in force. If the concern is about consistency then for the reasons I have mentioned I would prefer to adjust the proposed profit target and the 1985-86 EFL to take account of the extra internal resources which you are now expecting to be generated than to see an adhoc tariff adjustment which may be only very temporary. Indeed I recall my discussions with Norman Tebbit during last year's IFR when I pressed



CONFIDENTIAL

him to accept a more demanding EFL and profit target for the Post Office in order to assist in meeting our public expenditure objectives. I only accepted the current EFL because of Norman's arguments that my proposals were too demanding and would result in very serious industrial relations problems. It now seems that my original proposals *fw* that IFR were about right.

My officials have calculated that the proposed-profit targets for 1985-86 should be adjusted from 4.5 per cent on turnover to 5.3 per cent to reflect the latest view of the Post Office's financial performance and the EFL adjusted from £(70) million to £(90) million. I hope you will be able to accept these proposals so that the Post Office's targets for this year and the revised EFL can be announced without further delay.

I am copying this letter to the Prime Minister, E(NI), and Sir Robert Armstrong.

*Norman* *PR*

PETER REES



CONFIDENTIAL





From the Minister of State  
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

8 July 1985

Dear Peter

POSTAL TARIFFS

Sir Ronald Dearing wrote to me a few weeks ago with tariff proposals for 1985/86 comprising increases for the parcels business and selective increases in international prices from September 1985 that together would have raised additional revenue of £15m in 1985/86. He proposed holding the current inland tariff for the rest of 1985/86.

In considering these proposals, I was conscious that the Government have no statutory power to direct the Post Office on the general level of prices. Our locus is confined to ensuring that the tariff proposals are compatible with the financial targets which we set. The objective is to set tariffs at a level that would mean that if the Post Office met its real unit cost objective precisely it would also meet its profit target precisely. Sir Ronald's original proposals failed this test and he has now submitted revised proposals which I am able to endorse, on the basis of the proposals for 1985/86 financial objective set out in my letter to you of 25 June.

The revised proposals are for a package to be introduced on 4 November comprising a 1p reduction in the price of second-class mail; and increases in parcels and international prices designed to generate additional revenue of £15m in 1985/86. Your officials, who have been kept informed of progress on the Post Office's proposals, have full details.

JY1/JY1ABS





I regard this as an excellent outcome and it is pleasing that the customer will see some positive benefit from the outstanding Post Office performance in 1984/85. The workforce has also had its share of the benefit through the bonus payments associated with this year's pay award. And I am sure that you will be pleased to learn that the Government has also benefited as I understand that the EFL outturn for 1984/85 was close to minus £100m against a target of minus £60m.

Sir Ronald wishes to announce his proposals on 16 July and I should therefore be grateful for your confirmation that you are content with my proposals on 1985/86 financial objectives, and that you are content that the tariff proposals are consistent with those targets, in time for me to respond to Sir Ronald by the end of this week.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read "John Major".

A handwritten signature in cursive script, appearing to read "Geoffrey Pattie".

GEOFFREY PATTIE

M12/M12AES