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Prime Minister (2)

MUS 11/2

Very good news.
MB

PRIME MINISTER

POST OFFICE PRICES

On Wednesday I saw Ron Dearing, Chairman of the Post Office about postal profits and postal tariffs. In the last financial year, the Post Office made a profit of £92m and he told me that in the present financial year, it is likely to exceed £120m and it will be announced in July. This is of course good news and it reflects great credit upon his management which has been directed to reducing costs and particularly the massive number of hours overtime.

However I pointed out to him that there is considerable difficulty in justifying price increases to the public against a background of such large profits. Two months ago he proposed that the first class stamp should increase by 1p from 15½p to 16½p from 1 April and currently POUNC is looking at this. I suggested that he should look at this again carefully. He told us today that he proposes only to proceed with an increase of ½p from 1 April which will raise the first class stamp to 16p while the second class remains at 12½p. This will be announced on Monday 14 February.

I think this will be very welcome news and it should be presented as a contribution which the public sector can make to holding back costs borne by industry and the consumer, and to help our fight against inflation. The Union of Communications Workers is unlikely to welcome this as they will see it as reducing their scope for negotiation in the wage round which is about to start.

I am copying this to members of E(NI) and Sir Robert Armstrong.

K.B.

KENNETH BAKER

M77/M77AAZ

11. 2. 83

Post etc

HL

14 February 1983

Post Office prices

The Prime Minister commented "very good news" on your Minister's minute of 11 February, recording the reduced price increases which the Post Office is planning to go ahead with.

MICHAEL SCHOLAR

Neil McMillan, Esq.,
Department of Industry.

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Prime Minister (2)

MS 22/12

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

22 December 1982

Dear Secretary of State

POSTAL PRICES

I very much share the concern that you express in your letter of 9 December that the Post Office should be led to bargain more responsibly on pay than the 5% settlement assumed in their tariff proposals.

Given that such a settlement is already allowed for in their calculations and that the likely overshoot of this years profit target may well work its way through into an easier financial position for next year than the Post Office are currently assuming, it may be necessary to take further steps closer to the time in order to ensure that the Post Office approaches its next wage negotiations against a background of taut financial discipline.

I am sure that you and Kenneth Baker will continue to press for tight pay bargaining, but exhortation may not be enough. Should POUNC propose that the Post Office defers or modifies its tariff proposals, we should consider sympathetically such a move - which would have the desirable effect of importing some financial stringency.

If they do not, then particularly if it becomes apparent that the Post Office position at the end of 1982-83 would allow for an even more generous pay settlement for 1983-84 than their present unacceptable 5%, we may have to consider what other steps we might need to take to underpin the message that you are already giving them that they should seek to settle at a level significantly below 5%.

On that understanding, I am content that, as you propose, the Post Office's tariff proposals should now be referred to POUNC.

I am copying this letter to the recipients of yours.

Yours sincerely

Jr LEON BRITTAN
(Approved by the Chief Secretary)
Jr. Gieve

Post & Telecomms

Future of Post office



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TELECOM

CC JV ✓



JF2177
Secretary of State for Industry

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ASHDOWN HOUSE
123 VICTORIA STREET
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9 December 1982

②

The Rt Hon Leon Brittan MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister

3.5% increase in
postage etc.

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Dear Leon,

MUS 9/12

POSTAL TARIFF INCREASES

The Post Office has sought our approval to put to the Post Office Users' National Council proposals for tariff increases averaging 3.5%. They would take effect from 5 April 1983. The increases would entail 1p on a first class letter, but no increase on the basic rate second class letter, although there would be small increases averaging some 2% on the higher weight steps. There would be increases on inland parcels and on overseas mails averaging about 6% and 5% respectively.

2 The last increase, averaging about 9.3%, took place on 1 February 1982, and the current proposals are therefore well within the likely increase in the RPI between 1 February 1982 and 5 April 1983. The additional income arising from the increases would enable the Post Office to make a return of 2½% on turnover in 1983/84 and to meet its external financing limit of -£43m.

3 In order to meet its financial objectives with the package, the Post Office will require a productivity improvement of 2% in 1983/84, on top of increases of 3.3% in 1981/82 and 3.5% in 1982/83, together with a volume increase of 1% over and above the 2% forecast for 1982/83.

4 The Corporation is on target for its real unit cost objective in the mails area, although it may have some difficulty overall in meeting the target in the light of a shortfall in the counters area.



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5 On pay the Post Office has assumed an increase of 5% in the next round. Kenneth Baker has told Mr Dearing that we regard this assumption as excessive and that somewhere in the region of 3½% would be more appropriate, and I shall be pressing this point during the run up to the postal pay negotiations.

6 I believe that the proposed tariff increases are reasonable and that the Post Office's achievement in confining them to 3.5% over a fourteen month period is commendable. Although the pay assumptions on which the proposals are based are higher than we would wish, the assumptions on increases in volume and productivity may be difficult to achieve without a great deal of effort on the Post Office's part. The proposed tariff increases do however represent a modest increase and I am minded to tell the Chairman that he is free to put the proposals to the Post Office Users' National Council.

7 Mr Dearing would like to put the proposals to the Users' Council by 1 January 1983 in order to give customers at least three months' notice. I should therefore be grateful for any comments as soon as possible.

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

Yours
Pat

9 DEC 1982