

Prime Minister ①

Agree to a short meeting?

AT 12/1

Yes not

PRIME MINISTER

1. DTI have received a proposal from the Post Office which would involve the closure of 1,000 urban sub-post offices and 80 Crown Offices, and the down grading of 50 Head Post Offices, over the next two years. I attach a short note on this from the DTI.
2. Norman Tebbit and Kenneth Baker are only too well aware of the political sensitivity, especially after the difficulties Patrick Jenkin encountered with the rural post offices. (I should emphasise that there are no proposals to reduce the size of the rural network even though many of the sub-post offices in the country lose more than those in the towns.) Ministers have therefore talked about whether an announcement - which in any case would be made by the Post Office rather than by the Government - could be avoided and have come to the conclusion that an announcement would have to be made. Nothing so far has been picked up by the press except for one article in the Daily Mirror in January 1983. But Ministers believe that an attempt to avoid an announcement would be counter-productive and stories would rumble on probably in an exaggerated way.
3. Kenneth Baker, with Norman Tebbit's approval would like to take your mind on this matter before he proceeds further with administrative steps and formal proposals.
4. Would you be prepared to see him for 10 or 15 minutes? Yes not
5. Alternatively I could transmit to him any comment you minute.

Stephen

Stephen Sherbourne

12th January 1984

① Mr Sherbourne
② Mr Turnbull

awarded for ~~Wednesday~~
1600 on Wednesday
18: January.

CR
13/1



POST OFFICE COUNTERS NETWORK PROPOSALS : AIDE MEMOIRE

Post Office Proposals: To close 1,000 urban sub-post offices and 80 Crown Offices and to downgrade 50 Head Post Offices over the next 2 years or so.

Reasons: The current network is too large and consequently inefficient. All the offices facing closure are loss-making. Unnecessary costs will inevitably fall on customers (mainly DHSS and other Government Departments) unless reduced.

Estimated Costs and Benefits: The proposals will generate savings of £15m p.a. in 1982/83 prices (equivalent to 3% reduction in real unit costs). Once-off costs of £43m (compensation for sub-postmasters and redundancy and enhanced pension payments for Crown Office staff).

Social Implications: Closures will not prejudice the PO social provision criterion that offices should be no more than one mile apart in urban areas. Everyone still within ½ mile (10 minute walk) of Post Office counters. Greatest over-provision in London - 13% of sub-post offices at risk (170).

Rural offices: Will not be affected by these proposals. No plans to reduce the size of the rural network.

Government Financing Implications: Minimum temporary EFL relaxation consistent with implementing proposals. Estimated effect £18m in 1984/85 - £13m 1985/86. Thereafter savings of £18m plus p.a. (outturn prices).

Possible opposition: National Federation of Sub-Postmasters will positively recommend proposals to their members if agreement reached on compensation. UCW may oppose closures but PO will proceed. Inevitable, however, that local opposition will arise.

P.O. Public Approach: Proposals certain to become public knowledge. To avoid being put on defensive by accusations of cover-up, PO propose pre-emptive approach stressing positive benefits - guarantee of 95% of present network until 1987; reduction in costs brings benefits to viability of remaining network; still better provision than any other UK organisation or European Post Office; most closures will occur with voluntary retirement of sub-postmaster (thanks to compensation terms); image of caring and efficient P.O.

Next Steps: If Government accepts financial and political implications of proposals, PO will identify precisely which offices are to close and submit detailed costings. They will formally consult POUNC. Unlikely to implement before April/May 1984.

**The
Post Office
counters
network**

The Post Office Counters Network

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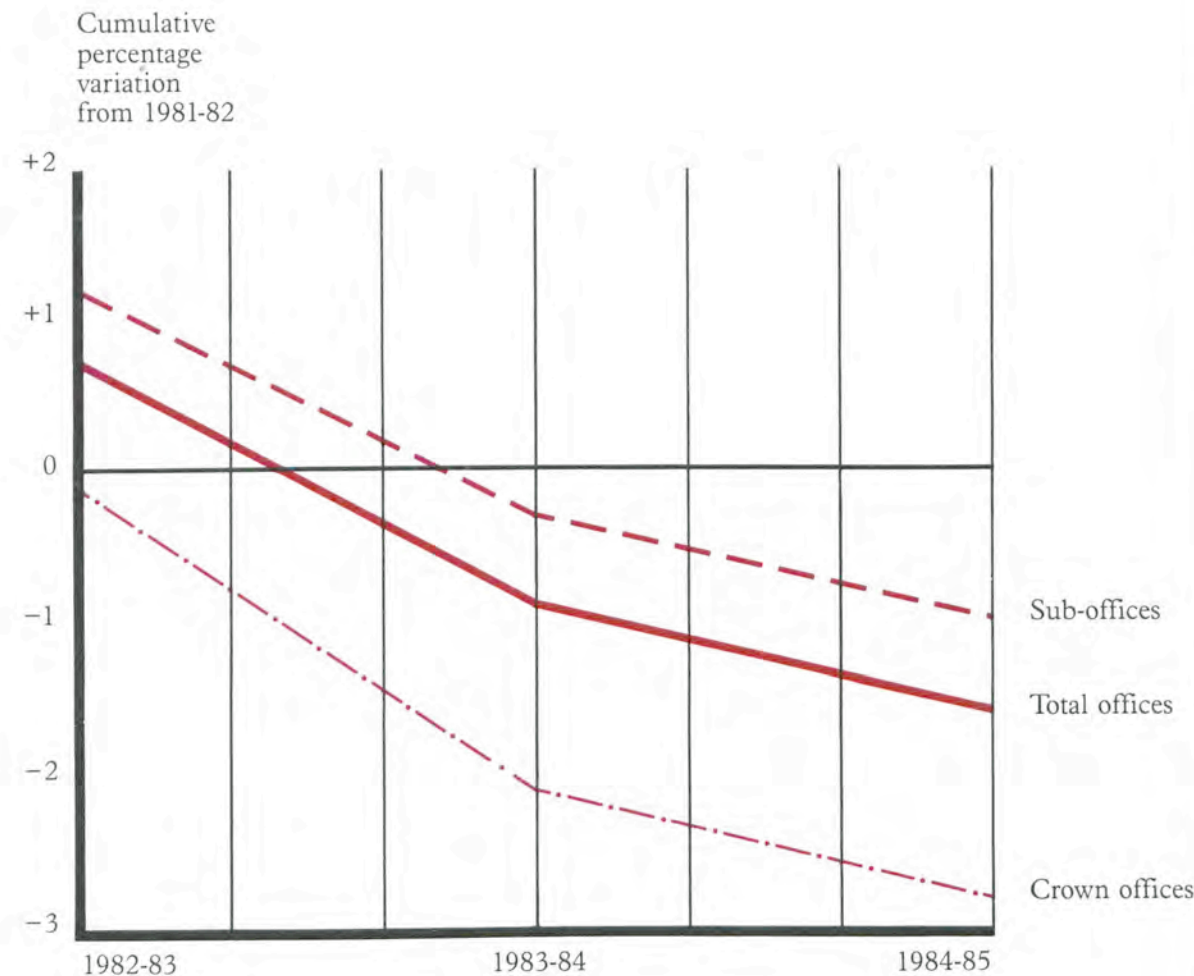
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THIS DOCUMENT IS IN COMMERCIAL CONFIDENCE

Table 1 Forecast counter business trends 1981-82 to 1984-85



NOTE: By 1984-85 the traffic decline is equivalent to a loss of 34 million transactions of 30 seconds overall — 19 million at Crown offices and 15 million at sub-offices.

SOURCE: THE POST OFFICE

The Network

Comprises 22,398 post offices of which:

- 1566 Crown offices owned and managed by the Post Office;
- 20,832 Scale Payment sub-offices owned and managed by the private sector on an agency basis.

This network:

- has twice as many outlets as all the clearing banks combined;
- gives a higher coverage per head of population than any other European nation except the Irish Republic;
- on average serves 27 million customers each week;
- carries out around 2,200 million transactions each year;
- deals with over £63,000 million a year, equivalent to 22p in every £ which changes hands in the UK.

The Targets

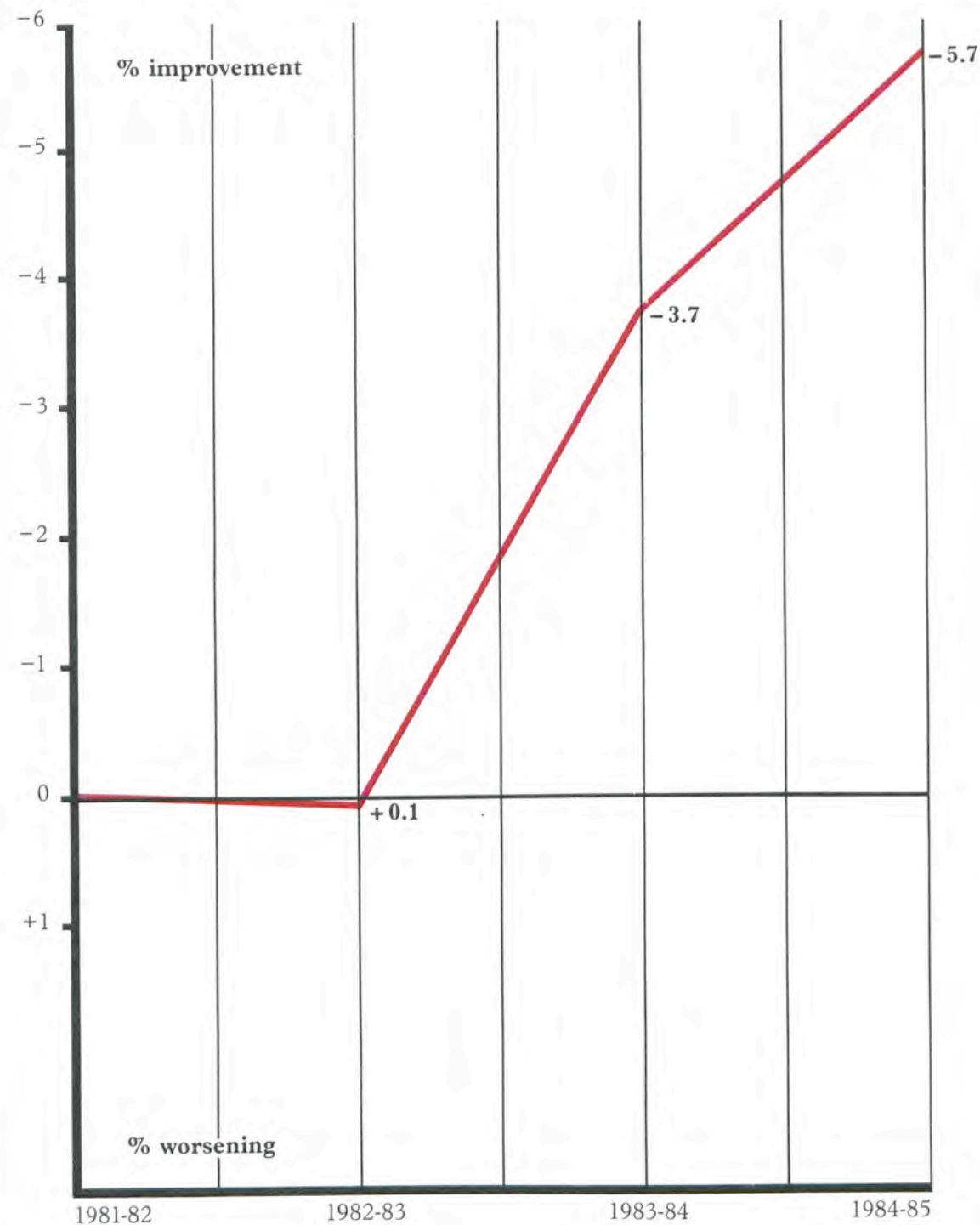
- to reduce real unit costs by 5% between 1981-82 and 1984-85;
- to make profits in line with the overall Postal Business target (currently 2.7%).

The Problems

- expensive, labour intensive network — fixed costs high in the short-term;
- high basic transaction cost of £37 per hour, a deterrent to new business;
- forecast traffic decline (*Table 1*) causing unit costs to rise further;
- many unprofitable offices;
- an Agency Services Agreement with Government departments which does not allow scope for a commercial pricing policy to attract new business.

The Crown Office Network

Table 2 Cumulative real unit cost targets at Crown offices



SOURCE: THE POST OFFICE

Background

- 1566 offices handling 36% of total counter business;
- employ 10,000 counter serving staff and 10,000 back-up support staff dealing with accounting, remittances, cash management, etc for the whole network including sub-offices;
- total direct costs in 1982-83 £160m, 30% of all counter costs;
- real unit costs have risen in recent years but are targetted to reduce in the next two years (see Table 2).

The Problems

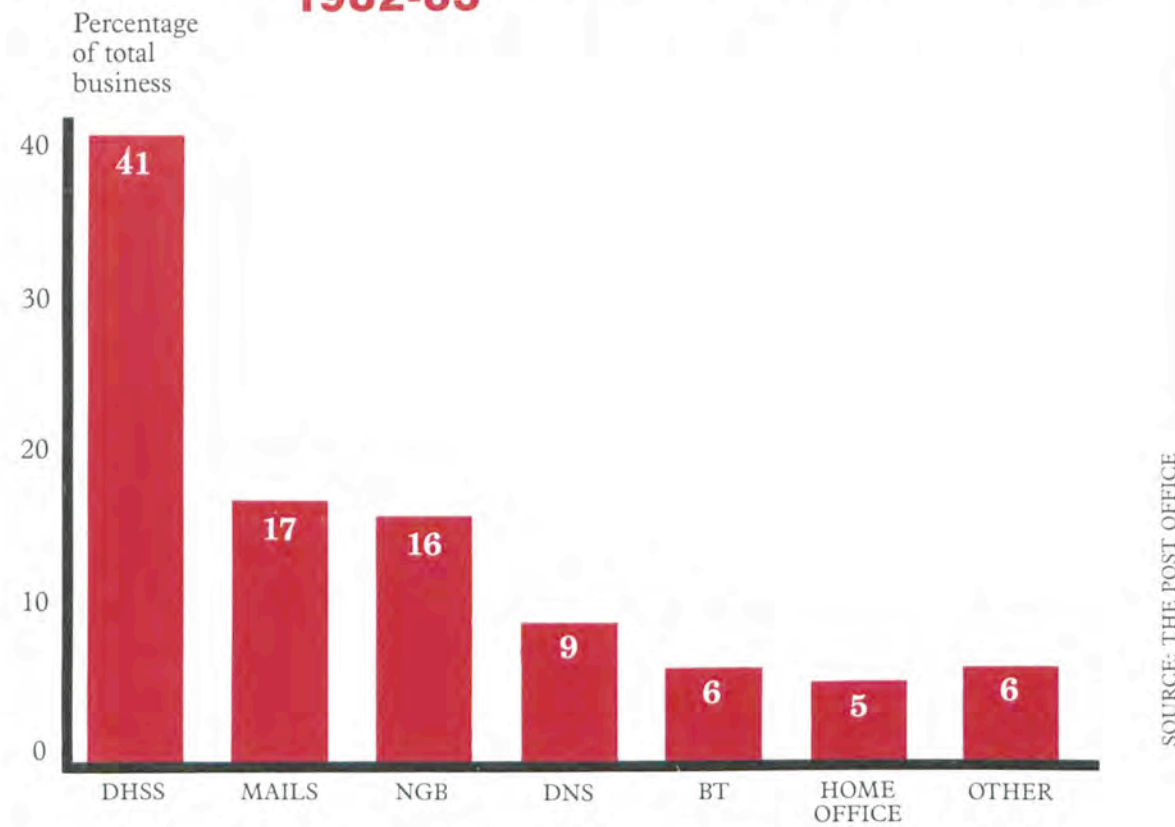
- traffic decline more pronounced than in the sub-office network (Table 1);
- counter occupancy levels (time actually spent serving) too low at 59% compared to target 65%;
- staffing inflexibility and slow response to business level changes;
- high overhead costs, particularly accommodation for prime site locations;
- recent contribution studies, now being refined, suggest:
 - 1125 (72%) offices make a sizeable contribution;
 - 269 (17%) offices marginal contribution;
 - 172 (11%) offices substantial negative contribution.

ACTION

- stronger management effort, better organisation and sharper accountability;
- a productivity deal has been signed with the UCW which will: improve throughputs at counters and in clerical areas; provide greater staffing flexibility; generate economies — target £41 million over five years;
- tough budgets have been imposed on all local managers;
- a marketing division has been set up; accounts managers appointed to look after major customers, and a programme of market research established using external resources. A marketing plan with challenging targets has been drawn up;
- a system of financial contribution accounting to operate at all main offices is being developed for general introduction in 1984;
- a critical review of the network to weed out and/or convert to sub-offices those offices still making a negative financial contribution after the management action outlined above.

The Scale Payment Sub-office Network 3

Table 3 Breakdown of sub-office business 1982-83



Background

Modern network dates from 1908 when Hobhouse Committee of House of Commons set up current basis of remuneration. At that time there were some 21,600 sub-offices.

Now:

- there are 20,832 (a decline of 3½% over 75 years);
- their direct costs represent 43% of total counter costs, £234m in 1982-3;
- they handle 64% of counter business;
- deal with more than 150 different types of transaction but 10 of these account for 75% of their workload;
- most used services are DHSS 41% of all business, Mails 17%, Girobank 16%, DNS 9% (Table 3).

And:

- real costs have risen in recent years, and in 1982-3 further worsened by about 0.3% against the target of a 2% improvement (Table 4).

The Problems

In 75 years there has been little or no change in network, scale, organisation, method of payment. As a result the network is beginning to creak in terms of trying to compete in a competitive, cost conscious, environment.

Sub-offices are graded and paid by size, with each element of work being given a value in terms of 'units'. The unit relates to the time a transaction takes. Currently each unit is equivalent to 18 seconds.

Remuneration (pay and expenses) relates to these units:

- minimum of £1,795pa up to a ceiling of £2,300pa for the smallest offices (2650 offices; 12.7% of network);
- maximum of £41,900pa for the largest (five offices; 0.02% of network).

Table 5 (see page 8) shows that the unit cost of operating the system differs dramatically from the smallest to the largest offices.

Inbucon Business Consultants, in working on comparative costs, have shown that nearly half the sub-office network (11,000 offices) does not cover its direct costs and makes a substantial loss of £47 million on fully allocated costs.

Remuneration agreements with the Federation of Sub-Postmasters (which have been running for many years) provide:

- a fixed minimum payment (currently £1795pa) irrespective of work load, for the 2650 smallest offices. Total cost £5 million pa;

continued overleaf

Table 4 Cumulative real unit cost targets at sub-offices

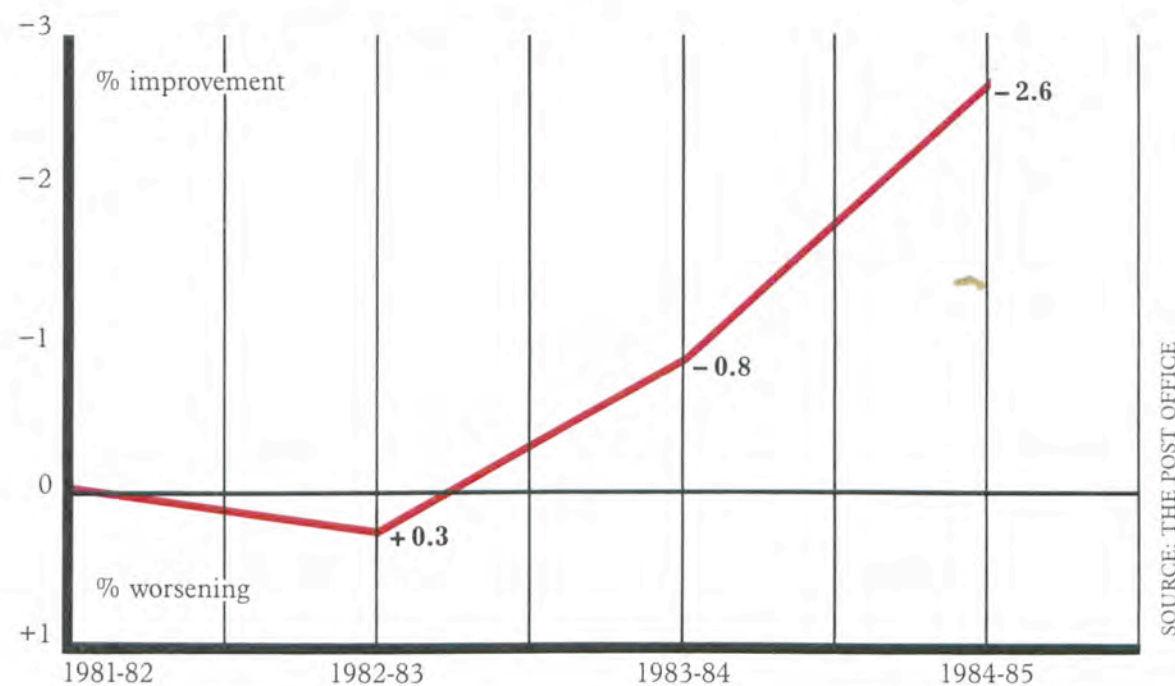
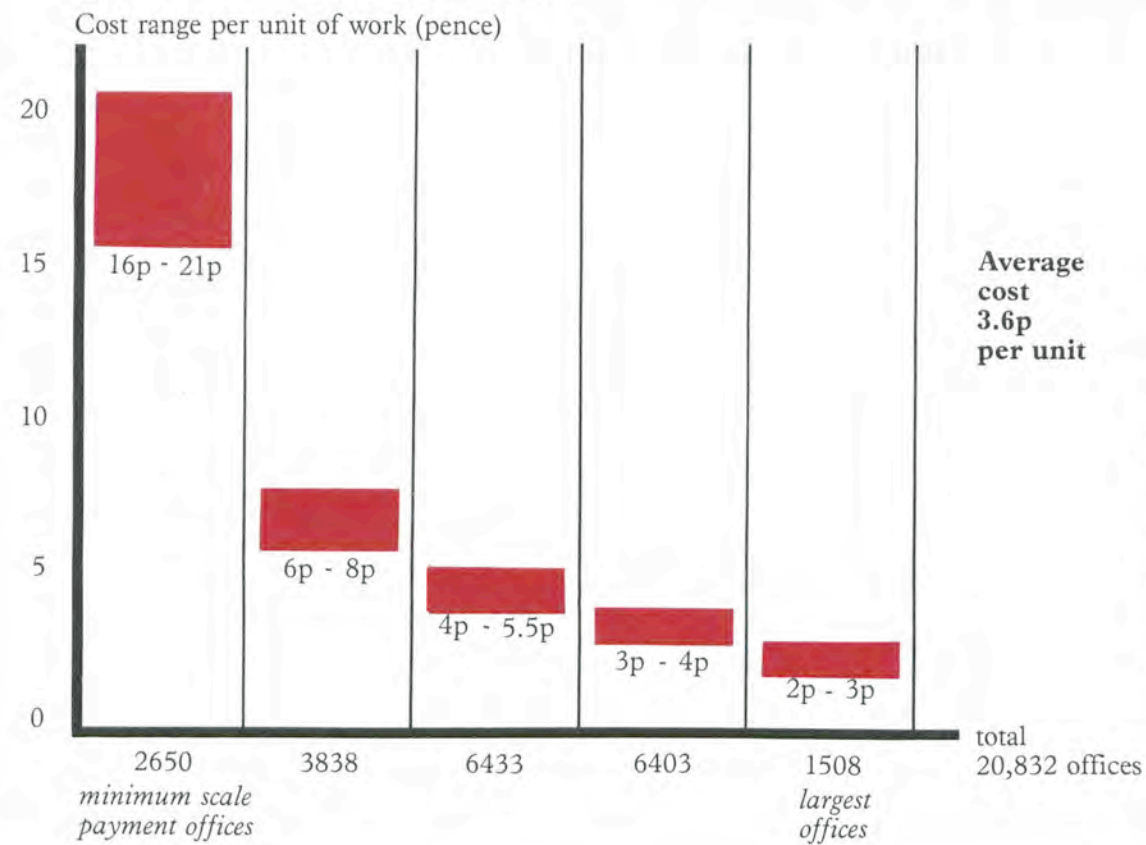


Table 5 Costs per unit of work at sub-offices in 1982-83



- an expenses related element of remuneration (some 50%) linked to the past year's movements of agreed indices. Total cost £104 million pa;
- a 'pay' element related to the number of units of work; there is a system of review of work-load every three years with 'special' reviews sooner only if work load is thought to have increased; but not decreased. Total cost £125 million pa.

This means that the bulk of the direct costs are 'fixed' in the short term unless the number of offices alters.

There is substantial local reaction to any proposal to close an office however strong the case and notwithstanding adequate network coverage nearby.

ACTION

- **A determined drive for new business (Teleshop, travellers' cheques, milk tokens, bus passes, cash issuing, etc);**
- **a review of the network and a judicious pruning within the guarantee given to the NFSP that 95% of the network will be retained for four years assuming no major adverse external factors;**
- **a fundamental review of the remuneration system;**
- **development of better measurement, monitoring and control systems related to financial contribution levels.**

The Agency Services 4 Agreement (ASA)

This agreement covers the period 1981-82 and 1984-85 and:

- governs the basis on which Government departments are charged for work handled at post office counters;
- provides that the counters business should meet a real unit cost target of a 5% decrease by 1984-5 over 1981-2;
- applies to all areas of the counters network including subpostmasters.

The basis of charging — although involving more commercial negotiation than previously — remains one of cost sharing which means that:

- all users bear their proportion of the infrastructure costs of the network calculated in relation to their total business;
- costs include the uneconomic small offices (as many as 11,000 offices);
- amount borne does not relate to the scale of usage of uneconomic offices required by individual users;
- changes in individual department's business levels, growth or decline, impact on all users' costs. Consequently, declining businesses are shielded from the full impact on their unit costs, and growing businesses do not gain the full benefits which might otherwise accrue;
- the pricing structure which shares **all** costs does not reflect the fixed and variable nature of the network costs; hence new business has to bear the full burden of allocated costs virtually from the outset, a major disincentive.

The inflexibility of the present agreement militates against new business which could be priced to make a useful contribution to network overheads. This combined with:

- a relatively static size of network containing many uneconomic units;
- declining traffic levels;

means that there is little opportunity to reduce fundamentally the overall costs reflected in prices faced by departments and could actually produce a spiral of decline.

Summary of action needed 5

Drive to reduce costs

- productivity deal
- tough budgets
- network review
- fundamental review of subpostmasters' remuneration

Vigorous marketing

- team established/account managers appointed
- marketing plan developed — challenging targets
- external market research
- monitored closely by the Board.

Improved control and accountability

- better organisation — running counters as a business; greater personal accountability
- contribution accounts to be introduced at all post offices during 1984

Use of information technology

- pressing ahead with counter terminal trials
- evaluation of project to the Board in October
- bold expansion programme after October review
- better and more widespread use of computers in clerical support areas.

For discussion with Government

- prospects of new Government business;
- financing of the uneconomic network;
- development of commercial pricing opportunities within a revised Agency Services Agreement;
- greater discretion to undertake additional public and private sector work at post offices.

The Post Office

CCNO

NDPM

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01-233 6106 (LlInell Union)

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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

14 February 1984



De Kenick

THE POST OFFICE COUNTERS NETWORK

Thank you for copying to me your letter of 23 January to Peter Rees.

Post Office closures are inevitably contentious at local level though perhaps less so in towns than in rural areas. It would be helpful if you would let me know should the Post Office revise its forecast, especially if that suggested Welsh closures much in excess of the 120 now likely. We will need too, to look at the balance within Wales.

Copies of this letter go to the recipients of yours.

*I have for a recent Cardifney
case how explain this can be!*

J. e.

Nev

Rt Hon Kenneth Baker MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

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CC/NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

6 February 1984

Dear Kenneth,

THE POST OFFICE COUNTERS NETWORK

Thank you for sending me a copy of your letter of 23 January to Peter Rees about the Post Office's proposals to close 80 Crown Offices and up to 1,000 sub-offices over the next two or three years in urban areas.

I have subsequently seen the letter from No10 of 26 January recording the Prime Minister's comments and Norman Fowler's letter of 2 February.

Like Norman, I would not wish to oppose the closures but I believe the correct presentation of them is vital. They are likely to prove highly unpopular and will fall particularly hard in the decaying urban areas which our inner city policy aims to sustain. I am sure that the advocates for those areas will argue, quite plausibly, that the loss of a sub-post office can be a death blow to a whole group of shops which are important both for providing facilities for old people and those tied down by small children and long hours of work.

I am copying this letter to the recipients of yours.

Your ever
Patrick

PATRICK JENKIN

POST + TELECOM: Future of Po: P & T

27 FEB 1984





JH 797

Secretary of State for Trade and Industry

NBPM AT6/2 a ✓
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
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6 February 1984

The Rt Hon Norman Fowler MP
Secretary of State for Health and
Social Services
Department of Health and
Social Security
Alexander Fleming House
Elephant and Castle
London SE1

D Norman

THE POST OFFICE COUNTERS NETWORK

Thank you for your letter of 2 February. I can confirm that these proposals will not prejudice the pricing arrangements which your Department and other user Departments have in place with the Post Office under the provisions of the Agency Services Agreement.

2 I have written to Ron Dearing today giving him financial approval for the project on the basis set out in Peter Rees' letter of 27 January; and I have stressed the importance of ensuring that the public announcement is handled sensitively. On the one hand, I have asked him to try to avoid committing himself too rigidly to a maximum of 1,000 offices - Peter Rees referred to this as did the Prime Minister's Private Secretary in his note of 26 January; and I have also pointed to the dangers of the closures being linked in the public perception to recent publicity on the decline in Government business. I have asked him to keep in touch on the timing of the announcement.

3 I am copying this letter to the Prime Minister, to members of E(A), John Selwyn-Gummer and Sir Robert Armstrong.

Norman

NORMAN TEBBIT

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FEB 1994

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Kenneth Baker MP
 Minister of State for Industry and
 Information Technology
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

NSPAM

February 7
 1984

Dear Ken.

THE POST OFFICE COUNTERS NETWORK

Thank you for sending me a copy of your letter of 23 January to Peter Rees about the future of the post office counters network. You will appreciate that our considerable interest in the proposal made it impossible for me to reply in time for the announcement which I understand you wished to make on 27 January but which I was surprised to note was not mentioned in your letter.

As the Post Office paper recognises, the Government in general is a major user of the service. This is true in particular of this Department, which is responsible for about one third of all Post Office Counter business.

We understand the financial pressures which lie behind the Post Office proposals and, for our part, we have been carrying out a general and continuing review of DHSS administration costs. The Post Office is of course well aware of changes which we have introduced in the methods of payment of social security benefits. It is estimated that the combined effect of these changes, the introduction of statutory sick pay, and increased unemployment will have produced a reduction of 2.8 per cent in DHSS business in 1983/4 compared with 1981/2 and further reductions are expected.

However the reduction of DHSS business was anticipated and we were advised that the Post Office expected to attract new and additional business which would more than compensate for the DHSS shortfall. An estimate in 1981 suggested that additional business would be of the order of 10 per cent of total counter business. Patrick Jenkin, then Secretary of State for Industry, wrote to me on 11 November 1982 to say that the estimate had been revised to 7 per cent. Your letter gives no details of new and additional business.


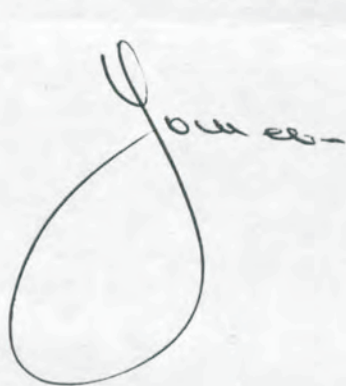
The failure to attract the additional business that was forecast will attract criticism. We should therefore do all we can to make it clear that the Government have not dragged their feet on this. For example, it might be helpful to ensure that the proposal that the Post Office should issue milk tokens on behalf of DHSS and DE should be made at the same time. This would at least demonstrate an earnest of the intention to attract new business. There might be other examples you could mention.

As for the effect on DHSS beneficiaries, the reduction in the urban network will cause a number of our beneficiaries some inconvenience since they will have to travel further to cash their benefit payments. However, I note that the reduction is not likely to add any great distance to the beneficiary's journey and although I regret any reduction in the service to the public, I will not oppose the proposal on this ground. It is of course very helpful that it is not proposed to reduce the rural network. I am very aware of the importance of the role of the Post Office in the social fabric in the rural areas and although I must seek to curb DHSS administration costs I hope that it will be possible to ensure that the Post Office will be able to continue to play that role.

As for the financial implications it is not altogether clear what effect your Department's proposals will have for DHSS. Our agreement with the Post Office on encashment fees requires the Post Office to reduce its costs by a stated percentage in 1984/85. I assume there is no question of this reduction not being passed on to us but I would be grateful for your confirmation that this is so.

Finally, I do think it is important that we do all we can to neutralise the critical response there will be to the prospect of substantial cuts in the urban counter network, which the Post Office paper recognises. An important element in our presentation will be the attraction of new business to replace the reduction of DHSS business. We do not want to get into a re-run of our troubles in 1981 when we were heavily criticised for the effect on sub post offices of our proposals for four weekly payments of social security benefits. What we said then about the network will be carefully scrutinised to make sure that as a Government we are not going back on our commitments. It will not be helpful if DHSS are regarded as responsible for the reduction in the urban network. I should be grateful therefore if you could put me fully in the picture in the presentation of these proposals.

I am copying this reply to recipients of your letter.



NORMAN FOWLER,

Post & Telecom : Future of Post office L78.

3 FEB 1984



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NRPM

AT 30/1

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Kenneth Baker MP
Minister of State for Industry
and Information Technology
Department of Trade and Industry
1 Victoria Street
London SW1

27 January 1984

Dear Minister,

POST OFFICE COUNTERS NETWORK

Thank you for your letter of 23 January.

I am pleased to see that the PO have come forward with proposals to streamline the urban network. I did not know that Ron Dearing had committed himself in the past to retaining 95% of the present network until 1987. But even within his own criteria, he appears to be deciding to do less by way of closing uneconomic outlets than he might.

I believe the Government should give him full support for the steps he is proposing. But surely he could be pressed to do rather more to eliminate loss-makers while still preserving a very generous level of service in the towns. I understand Dearing is preparing some further detailed study. I would not object if this led to a somewhat larger programme and I certainly do not think it should lead to a smaller one.

It is important that the Post Office makes the maximum effort possible to constrain the costs of this closure programme within their published EFL. I am sure that the PO could do much to absorb these costs and I am pleased to see that you do not believe it necessary formally to revise next year's EFL. However, I am content, subject to the detailed costings, that you should indicate to Dearing that the Government will look sympathetically upon a modest shortfall on the 1984-85 EFL provided that the closure programme is well under way and he is able to demonstrate that the Post Office is absorbing much of the cost within agreed provisions.

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So far as the POs efficiency target is concerned, I am prepared to accept that the costs and benefits from this closure programme be excluded from the last year of the present RUC target which runs to 1984-85. But I do not think it is right that any new efficiency target for 1985-86 and beyond should completely ignore the effects of these closures. The negotiations on new efficiency targets which you are setting in train provide the proper vehicle for considering how the impact of these closures should be taken into account. I think we must ask for this to be done rather than settling for a blanket exclusion of both costs and benefits at this stage.

I am copying this letter to the Prime Minister, to members of EA, John Selwyn - Gummer, Norman Fowler and Sir Robert Armstrong.

yours sincerely
PRL

for P REES

(signed by Technical Secretary
& signed in his absence).

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30 JAN 1984





10 DOWNING STREET

From the Private Secretary

26 January 1984

POST OFFICE COUNTERS NETWORK

The Prime Minister has seen Mr. Baker's letter of 23 January to the Chief Secretary. When he mentioned this subject to her recently, the Prime Minister suggested that the Post Office should not commit itself rigidly to closing no more than 1,000 offices. It should retain the option of closing more should there be more than 1,000 volunteers for closure. There is no reference to this point in these papers - indeed paragraph 10 of the Post Office's paper is rather specific in its references to the figure of 1,000. She hopes this point will not be overlooked.

I am copying this letter to the Private Secretaries to members of E(A), to Stephen Godber (DHSS), Emma Oxford (Department of Employment) and Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

Neil McMillan, Esq.,
Department of Trade and Industry.

SECRET



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DA
cc Mr Sherbourne
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10 DOWNING STREET

From the Private Secretary

19 January 1984

Dear Neil,

Post Office Counters

Mr. Baker came to see the Prime Minister yesterday to take her mind on the Post Office's proposals for closures. Mr. Baker explained that there were 21,000 Crown and sub post offices, making the network the most intensive in Europe. Of these, 10,000 lost money and losses totalled £30 million. In towns, the criterion was that post offices should be about one mile apart, i.e. leaving no-one with a walk of more than half a mile. There were 2,000 offices which should be closed by this standard. The Post Office were proposing closure of 1,000, i.e. retention of 1,000 offices which were not strictly justified in economic terms. This programme would be spread over three years and would cost about £43 million. The saving in running costs would be about £15 million a year.

Mr. Baker went on to explain that, in contrast to earlier proposals for post office closures, care had been taken to negotiate arrangements in advance with sub post masters. On average these would receive compensation payments of £18,000. The Post Office had drafted an announcement with care. This would stress that there were no rural closures being proposed, that 95% of the existing network would be retained and that there would be an extensive programme of modernising post office counters.

The Prime Minister accepted the case for a programme of closures but advised that the announcement should not guarantee the continued existence of the 1,000 post offices which by strict application of the standard ought to be closed but which were being retained. If it turned out that more than 1,000 offices applied for closure and compensation, it should be possible to accept a greater number. She also asked Mr. Baker to consider the timing of the announcement very carefully.

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Neil McMillan, Esq.,
Department of Trade and Industry.

SECRET

PRIME MINISTER

Post Office counters network

Mr. Baker's letter to the Chief Secretary does not include any reference to accepting more than 1000 closures if there were sufficient volunteers - the point you made to Mr. Baker when he came to see you. Indeed paragraph 10 of the paper at the back is rather specific in the references it makes to 1000 closures.

I have taken this up with Mr. Baker's office who assure me that your point was put to the Post Office who have taken full account of it. They will be stressing the maintenance of 95% of the present network. (Closing 5% implies a loss of 1100.) Agree I minute back saying you have noted the minute and hope that the option of more than 1000 offices will not be overlooked.

David M

AT

25 January 1984

80
BSP Prime Minister.
cc: HQ.



DEPARTMENT OF TRADE AND INDUSTRY

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From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

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Rt Hon Peter Rees QC MP

Chief Secretary to the
Treasury

Treasury Chambers

Parliament Street

LONDON SW1P 3AG

23 January 1984

Ken Baker

THE POST OFFICE COUNTERS NETWORK

The Post Office have approached us with proposals to reduce the size of their counters network by closing 80 Crown Offices and up to 1,000 sub-offices over the next two to three years. The proposals relate entirely to town offices and there are no plans to reduce the size of the rural network. Final details and costings have still to be worked out but before proceeding further, the Post Office are seeking acceptance by Government of the financial and political implications. I enclose a copy of the note outlining their plans together with a schedule indicating the likely geographical impact of the closure programme.

The proposals follow a review of the urban network which compared the actual provision of offices against a long-established criterion that no-one should have to travel more than half a mile to a post office in town areas. This identified some 2,000 offices surplus to this standard. When other criteria were taken into account, the Post Office felt that they could reasonably dispense with the 80 Crown and 1,000 sub-offices proposed.

The review of the network is now somewhat out of date and the Post Office would wish to consult their Regions again before going firm on which offices are to close. At that stage they will be able to come to us with precise costings; but preliminary work suggests that there could be savings in excess of £15m pa - which represents some 3% of total counters costs. Against this, it is estimated that once-off costs - to meet compensation and redundancy payments - will amount to some £43m. A payback period of only 2-3 years and a return on investment of some 30% is, in principle, attractive.

Government Departments are the main customers of the Post Office counters business and therefore stand to gain from action to

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remove unnecessary costs. Much has already been done to improve the efficiency of Crown Offices; the recently introduced productivity scheme should reduce staff costs by 5% by the end of next year for example. However, the sub-post office network, which accounts for more than half the costs of the counters business offers little scope for savings other than through a reduction in the number of offices. In my view, therefore, the closure programme proposed by the Post Office is necessary as part of the continuing effort to increase the efficiency of the business in order to be able to offer competitive prices to its customers.

The Post Office are confident of reaching agreement with the National Federation of Sub-Postmasters on compensation arrangements. If this can be done, the Federation will positively support the moves and seek to sell the benefits to their members. However, the UCW can be expected to oppose the Crown office closures although the leadership accept the inevitability of the position. The Post Office are confident that they can successfully take on the UCW on this issue if need be.

Although most of the sub-office closures will result from the voluntary resignation of the sub-postmaster, we know from experience that closing a Crown or sub-post office can nevertheless engender strong local opposition. The Post Office are clear that we shall want the closest liaison with them on their public handling of the closures but, in my view, there are strong points to make. Although this will not remove all opposition, I believe that it can be contained, and that it is possible to rebut any false suggestion of Government pressure on the Post Office specifically to undertake such a programme. On the financial implications, you will recall that the possibility of network closures was raised during last year's EFL bilateral and you agreed to give sympathetic consideration to any proposals that might be brought forward. I should like to tell the Post Office that, subject to the detailed costings being consistent with their preliminary estimates, we would propose to exclude both the incremental costs and benefits from the RUC calculation and extend this principle to the post-RUC efficiency target which we hope soon to negotiate for 1985/86 onwards. In order to emphasise the view that they should seek to finance the programme as far as possible by extra internal economies, I would suggest that, rather than a formal change to the EFL, we might instead leave the EFL unaltered but inform Ron Dearing privately that a shortfall within a pre-determined limit will not result in recovery in the following year. The precise arrangements will, of course, have to await the detailed costings. But I should like to be able to confirm that the Government does accept the financial and political implications of his proposals. That is virtually certain to include a modest relaxation of EFL.

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