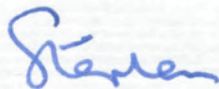


PRIME MINISTER

cc. Mr. Turnbull

Your Meeting with Ken Baker on Post Offices: Wednesday,
18th January 1984 at 4.00 pm

1. Ken Baker wants to talk to you about the proposals that have been made by the Post Office to DTI on the closure of urban sub post offices and Crown offices.
2. Attached is the note I submitted to you last week together with the short memorandum from the DTI which you have also seen.



Stephen Sherbourne

17th January 1984



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

Stephen Sherbourne Esq
10 Downing Street

12 January 1984

Dear Stephen

POST OFFICE COUNTERS NETWORK

Following your discussion with Mr Baker last evening I am now enclosing a short aide-memoire outlining the main points of the Post Office proposals. I am also enclosing a folder containing the principal background papers and relevant newspaper cuttings.

If you need any further clarification, please let me know. You can also contact Dennis Parsons, the official dealing with this, on 212 8699.

Yours ever

N M

N M McMILLAN
PRIVATE SECRETARY

M26/M26ABE

The Post Office

From the Chairman
Ron Dearing CB

Post Office Headquarters
St Martins le Grand
LONDON
EC1A 1PG

Royal Mail
National Girobank

Telephone 01-432 1515

IN CONFIDENCE

15 December 1983

Mr K Baker MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

Mr George

copies to

PS/DT

Mr Croft

Mr Cooper

DATE BY: 23/12

PS/Sec of State
PS/Sir Brian Hayes

Dear Minister,

THE COUNTERS NETWORK

I enclose a paper by the Post Office which contains our proposals for the Post Office network. Due to the implications of the decisions we have taken we need the concurrence of Government, particularly as our major customer and also because of the financial implications for our RUC and EFL targets.

As the paper says, we are currently in negotiation with the National Federation of Subpostmasters over a revised compensation scheme and we believe we have good prospects of reaching an agreement which will earn us their support as a Federation for the proposals we are making.

Finally, while the financial figures are the best estimates available to us at this time, we shall attempt to reduce them by all means available to us so that not only does the scheme become more financially attractive but that our need for revision of targets is reduced to its minimum. I know our account of the possible cost and negotiating ceiling will be safe in Government hands.

Yours sincerely
Ron

THE POST OFFICE COUNTERS NETWORK

Introduction

1. This paper seeks Government concurrence in a policy of reducing the network of urban post offices in accordance with standards which the Post Office announced and adopted many years ago but which it has been slow to implement because of public opposition. The need for economy now makes action necessary:

2. No comparable policy is proposed for rural post offices even though three quarters of these operate at a loss to the Post Office. Modest economies will be sought in the cost of operating the present rural network by other measures, for example by part time opening for a reduced agency payment.

The Urban Network : The facts

3. At the beginning of the present financial year there were 9530 urban sub post offices and 1563 Crown Offices. The Post Office adopted a policy in 1945 that it should provide urban post offices at mile intervals, unless special local circumstances justified a more generous provision.

4. A survey earlier this year showed that against our published criteria, there was an excess provision of over 2000 offices. Moreover, about 2000 sub offices operated at a loss to the Post Office in the sense that payments by the Post Office to the sub postmasters (plus associated overhead costs) exceeded the income paid by counter users to the Post Office for their services. Some 1600 are unjustified as failing both the geographical and profitability criteria.

5. The excess provision in urban areas is particularly marked in the inner suburbs around city centres from which population has tended to move, while the network of post offices has remained high.

The Rural Network : The Facts

6. There are 11,203 rural sub post offices. The rural areas in particular benefit from an agreement with the National Federation of Subpostmasters that

a sub post office has a minimum guaranteed income, currently some £2000 a year. There are 2650 such offices, all operating at a loss to the Post Office.

7. That the Post Office operates a rural network in which three quarters of the offices operate at a loss to the Corporation reflects acceptance of a social obligation to maintain a largely uneconomic service.

The policy proposed by the Post Office Board

8. The Post Office Board has decided that it can no longer afford to set aside its published criteria and that it should reduce the network of Crown and sub offices. But in doing so it has assured the Union of Communication Workers and National Federation of Sub Postmasters and its own customers that 95% of the network would remain intact until March 1987.

9. The Board has further decided that the policy of positive contraction should be concentrated in urban areas, with closure in rural areas taking place only when resignation could not be made good by obtaining acceptable recruits.

10. To reduce the network to 95 percent of its present number of offices could mean the loss of 1,000 sub offices and 80 Crown offices. But this would still leave the urban network some 1000 above the published distance criteria. It would also leave at least 1,000 operating at a loss to the Post Office.

11. While the guarantee of 95 percent of the network through to March 1987 stands, the need for economy has led to the conclusion that special action should be taken to encourage and facilitate a network reduction over the period to April 1986 through special arrangements negotiated with the National Federation of Sub Postmasters and, to the extent it proves necessary, by inviting Post Office employees to take early voluntary retirement or voluntary redundancy terms. Our hope would be that with the help of these measures, the implementation of long standing policies could proceed without the opposition of the National Federation of Sub Postmasters as a body.

Crown Office closures

12. For crown offices, the 95% guarantee could mean that 80 offices would face closure over the next 2 to 3 years. In addition, the Post Office has developed and will be implementing during 1984 a new system to measure the financial contribution of each Crown Office. The objective will be to make each unit financially viable by greater cost reduction and growth. Cost savings from reducing the number of crown offices will be supported by the down-grading of a number of head offices, thus reducing the level of administrative overheads charged to the counters business. This will be an acceleration of an on-going policy.

The Impulse for Cost Reduction

13. The Post Office counters network is now at a crossroads. For many years it enjoyed the benefits of steady traffic growth and cost-plus pricing agreements which effectively shielded it from commercial realities and enabled it to carry the high element of over-provision and loss making offices. This changed in 1981 with the introduction of the current Agency Services Agreement with Government Departments.

14. The Government is the major user of the network. Business transacted on behalf of Departments currently represents 55% of the total. A further 6% in respect of Green Girocheques benefit payments is also handled at Post Office counters. In 1983-84 payments for these services by Departments will be some £340m to Posts and £45m to National Girobank. This is therefore a major expenditure area for Departments who are looking for cost reductions. With the imposition of tigher financial disciplines, Departments have been stringently reviewing their procedures and usage of the counters network.

15. As a consequence the level of Government business transacted at Post Office counters has fallen by over 3% (equivalent to nearly 60 million 30 second duration transactions) in the last two years and this is set to be a continuing trend unless counter costs can be reduced. At the same time, Departments have been insisting on a real reduction in the price they pay for counter services. With high fixed system costs, the combination of reduced Government traffic and insistence on lower prices, the Post Office has to act to reduce the network.

16. Meantime, in the wider public sector the ability of the Post Office to retain and attract new business from other public utilities is constrained by its high counter unit costs and the pricing inflexibility imposed by the present Agency Services Agreement with Government Departments.

17. In the commercial sector the viability of National Girobank, operating in an intensely competitive market characterised by rapid technological change, will be similarly threatened unless counter costs, which constitute 51% of its overheads, can be reduced.

18. For these reasons the Post Office has to reduce the real unit costs of its counter operation. Over the three years to 1984-85 the target, agreed with Government, is for a 5% RUC reduction. Staff costs at Crown Offices are expected to fall by 2½% by the end of this year and are targeted to fall by a further 2½% in 1984-5. But this is not enough even in the Crown Offices - and does not touch the sub offices which account for more than half the cost. The network problem needs to be tackled.

19. To turn the counters network into a more efficient, competitive enterprise and to avoid a spiral of disastrous decline therefore requires action of the kind proposed above and some (modest in relation to the negative contribution of £36m a year) cost cutting measures for rural areas which, while encompassing closure only to the extent of that defined at para 9 above, would leave the basic fabric of the service unchanged for at least the remainder of the guarantee period. It also means that there is need for a new Agency Service Agreement that provides better scope for pricing and growth incentives.

EFFECT OF THE PROPOSALS

Financial

20. It is estimated that reduction of the network to 95% of its present size can produce savings of about £15m a year, equivalent to a 3% reduction in real unit costs. The achievement of this saving will, however, depend on the ability to meet compensation, redundancy, and advance pension commitments which could be upto £43m. These can be summarised as follows:

SPSO staff: to reach agreement with the National Federation of Sub Postmasters on an accelerated closure programme, some modification of existing compensation arrangements to sub postmasters losing their business will be necessary. If this involved making available the present compulsory closure terms to all sub postmasters losing their business in the two year incentive period, it would mean gratuities and redundancy payments of £18m. The basis of compensation under these arrangements is equivalent to 1½ times gross annual remuneration, a gratuity payment (related to length of service and office size) and redundancy. Average costs are estimated at £18,000 an office

Crown office staff: a redundancy programme will be needed, given that existing arrangements to improve productivity are likely to absorb much of the natural wastage. Assuming 1,000 staff were saved through Crown office closures and Head Office downgradings, the cost of statutory redundancy and pension advancement is estimated to amount to some £25m. This sum includes the extra burden on the Post Office Pension Fund, deficiencies in which have to be made good by the Post Office under the terms of the Trust Deed.

21. Relating the maximum expected cost of £43m to savings of £15m a year, payback should be achieved in three years. Financially this is an acceptable proposition. However, the initial costs cannot be contained within existing EFL and RUC targets and exceptional financing outside current targets would be required, together with relief from the RUC target to the extent that these exceptional payments were incurred in the next two financial years.

INDUSTRIAL RELATIONS

22. The initial UCW reactions to these proposals is likely to be antagonistic against the background of the substantial economies already being achieved by their members throughout the business under existing cost reduction measures, and the unprecedented profitability of the Post Office. However, UCW officials understand the problems facing the counters business and agreed to clauses within the current productivity agreement relating to office closure. They expect 5% of offices to be closed. Achievement of the required staffing reductions will not be easy and care will be required to avoid prejudging continuing success with productivity improvements. The Post Office believes that these objectives can be achieved.

23. So far as the National Federation of Sub Postmasters (NFSP) is concerned, officials have indicated that they are prepared to accept a contraction of the network provided the terms are satisfactory to their members. There are firm indications that a substantial number of Sub Postmasters will resign voluntarily on the right terms. The negotiating aim is therefore to:

- secure NFSP cooperation in and commitment to the proposals in the light of adequate compensation arrangements;
- involve NFSP in explaining the scheme to their members;
- generate voluntary retirements so avoiding wherever possible the problems of compulsory closure.

24. Consultation with the NFSP suggests that this objective can be achieved, although strong opposition from individual sub postmasters against compulsory closure must be expected. However our objective would be to secure the bulk of the reduction in the network from voluntary retirements.

PUBLIC REACTION

25. Public reaction will be hostile because:

- the Post Office is known to be at a record level of profitability and the need for economy will not be accepted by our customers.
- the Post Office is perceived as a Corporation and the separation of counters operations and financial targets is little understood.
- closure will be seen as a further reduction in service offered. Counter closure is amongst the most lively of local issues.

26. Almost invariably, the local Member of Parliament, the local authority and in the case of Crown Office closure, the local Chamber of Commerce, oppose closures. Application of Post Office standards, even to the extent envisaged here, will be in sharp contrast to the level of contraction in

other recent years which, over the last decade, has been about 100 a year. What is now envisaged may lead to long and sustained criticism of the Post Office of a kind not experienced for some years.

27. To create public understanding of the need for these economy measures, the Post Office would propose to draw on high quality advice to assist in formulation and explanation of its strategy. Emphasis would be placed on the important guarantees already given about the maximum network size. Publicity would also highlight the size of the counter network in comparison with other British institutions and European countries and stress that the basic rural SPSO network was being maintained in the way defined earlier in the paper. Close liaison would be maintained with POUNC and local community groups. Overall, the aim would be to strike a positive rather than negative note. And there are some very positive elements to our counters policy:

- i. a progressive programme of refurbishing Crown Offices.
- ii. a policy of introducing new technology on which proposals will be shortly made to Government.
- iii. a wider range of services, reflecting our efforts to win new business to offset the decline in Government business.

28. If the Government concurs with what is proposed, the next step will be to enter into formal consultation with the Post Office Users National Council.

SUMMARY

29. The Post Office proposals include:

- guarantees of 95% of the present network until March 1987, coupled with a special package to facilitate contraction of the network to nearer Post Office published standards over the next two financial years.
- generation of savings of £15m pa equivalent to a 3% real unit cost reduction leading to lower unit costs, essential if Post Office counters are to trade successfully in an increasingly competitive environment.

- one-off costs of upto £43m but with payback in three years but requiring "below the line" treatment for EFL and RUC target purposes
- an attempt to minimise NFSP and union opposition with fair terms to persuade Sub Postmasters and surplus UCW staff to leave voluntarily, coupled with a policy of concentrating most closures on offices where the Sub Postmaster wishes to resign.

December 1983

10
11/11
The Post Office

Royal Mail
National Girobank

Mr Roberts

Director Counter Services

Post Office Headquarters
St Martins le Grand
LONDON
EC1A 1PG

Telephone 01-432 3452

4 January 1984

IN STRICTEST CONFIDENCE

Mr A A George
Room 345
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Dear Mr George

I am replying to the questions you put to Bill Cockburn just before Christmas.

Attached to this letter are two annexes, one dealing in broad terms with the build up of costs and savings from reducing the network to 95% of its size in the middle of this year and the second a possible geographic spread.

So far as the financial figuring is concerned, I have tried to show in the brief notes attached to the annex how the calculations have been done and you will recall that we touched on this at the meeting with Philip Cooper prior to the memorandum being sent to you. If you require further information in this area, I suggest that this best be provided through a meeting at which we can explain some of the detailed background.

The precise location of closures will be very much a matter for local discussion at Head Office level and will depend on how many sub postmasters are prepared to take advantage of the terms we hope to negotiate with the National Federation and therefore resign voluntarily. The figures included in the annex are based on the management study undertaken earlier this year when we sought to identify in each Head Postmaster's area those offices likely to be "surplus" to requirements based on our existing rules. These figures have then been reduced in proportion to the 95% guarantee which has been given to the various unions. They are not fixed figures and, as I said, much will depend on local negotiation. They do, however, give a broad, and I must stress broad, indication of the proportion of closures in different parts of the country.

Yours sincerely

Frank Roberts
pp A J ROBERTS

THE POST OFFICE COUNTERS NETWORK: PROPOSED CLOSURE PROGRAMME

The attached annex sets out, at 1982-83 price levels, broad estimates of the costs and savings that would flow from reduction of the network to 95% of its size this year. A number of the terminal costs for both Subpostmasters and Crown Office staff relate to factors such as office size, length of service and age. The main elements of these costs are set out below. Similarly, on costs at offices gaining traffic from closed offices will be related to factors such as office size and existing staffing levels. It should be noted, therefore, that firm estimates of costs and saving must await specific closure proposals and the outcome of negotiations on terms.

Summary of Main Cost ElementsTown Sub Offices

1 Costs assumed to be paid immediately on closure to individuals:

Lump sum: $1\frac{1}{2}$ x gross remuneration plus allowance [gross remuneration dependent on office size].

Redundancy: Dependent on age and length of service.

Gratuity: Dependent on size of office and length of service.

2 Costs arising at offices gaining traffic:

Crowns: Extra staff to handle increased business. Costs would be discussed in the context of the PO/PA productivity scheme whereby to the extent that extra work is absorbed without cost staff become eligible for productivity payments.

TSOs: Extra remuneration to reflect increased traffic levels being handled by the Subpostmaster.

Crown Offices: Closure and Down-grading

1 Costs paid to individuals immediately:

Redundancy both dependent on age and length of service

Pension Advancement

2 Costs arising and office gaining traffic: as for TSOs

Summary of Main Savings Elements

Town Sub Offices: All direct costs (essentially remuneration, NIPOC etc).

Crown Offices: All direct costs although some elements eg accommodation, rate for productivity purposes over various lengths of time.

THE POST OFFICE COUNTERS NETWORK: IMPLICATIONS OF REDUCING NETWORK TO 95% OF SIZE IN MID 1983

1 Numbers of Closures

	<u>TOTAL</u>
Crown Offices	80
Town Sub Offices	1000
Head Office Down-gradings	50

2 Financial Summary (For illustrative purposes spreading the main costs over 2 years at 82-83 prices)

	<u>Costs</u> (£m)	<u>Savings</u> (£m)	<u>Annual Net</u> (£m)	<u>Cumulative Net</u> (£m)
<u>1984-5</u>				
Crown Offices	(7½)	1¼	(6¼)	(6¼)
Town Sub Offices	(9)	1½	(7½)	(7½)
Head Office Down-gradings	(4)	¾	(3¼)	(3¼)
	-----	-----	-----	-----
TOTAL	+10% (20%)	3¼	(17) <small>(18-19) outturn</small>	(17)
<u>1985-6</u>				
Crown Offices	(4½)	3¼	(1¼)	(7½)
Town Sub Offices	(9)	4½	(4½)	(12)
Head Office Down-gradings	(9)	3¼	(5¾)	(9)
	-----	-----	-----	-----
TOTAL	+15% (22½)	11	(11½) <small>(15) outturn</small>	(28½)
<u>1986-7</u>				
Crown Offices	-	4	4	(3½)
Town Sub Offices	-	6	6	(6)
Head Office Down-gradings	-	5	5	(4)
	-----	-----	-----	-----
TOTAL	+20% -	15	15 <small>18 outturn</small>	(13½)
<u>1987-8</u>				
Overall	-	15	15 <small>19 outturn</small>	1½

NOTES:

1. Costs assumed to be paid immediately on closure.
2. Savings assumed to be incurred evenly throughout the year ie half-year only in first year.

The Post Office Counters Network: Broad Effect of Applying the 95% Guarantee to Town Sub Offices (TSO)

REGION	TOTAL SPSOs	MAXIMUM ESTIMATE OF TSOs AT RISK	% OF SPSOs IN REGION
EASTERN	2170	80	3.9
LONDON	1413	180	13.0
MIDLAND	2865	170	5.8
NORTH EAST	3006	110	3.8
NORTHERN IRELAND	690	1	0.1
NORTH WEST	1976	130	6.6
SCOTLAND	2103	50	2.6
SOUTH EAST	1730	80	4.4
SOUTH WEST	2628	70	2.8
WALES	2152	120	5.4
	<hr/> 20733	<hr/> say 1000	