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the department for Enterprise

Prime Minister

GRU ②

To be aware of 'X' below.

BHP

18/10

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

The Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
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Date

071 215 5622
NP1099

18 October 1990

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Dear Norman

1990 PES: POST OFFICE, ECGD

I am glad that we have now been able to reach a settlement on the Post Office's investment and financing requirements for 91/92-93/94.

As we discussed, our first priority has been to seek improvements in Post Office efficiency. Our settlement implies a more than doubling of the efficiency target that we had previously agreed (a cumulative 1% reduction in real unit costs (RUC) over 89/90-91/92). The extra efficiency improvements in this period are (broadly) to be sustained in the following two years and cannot therefore simply be achieved by deferring expenditure beyond 1991/2.

X/ We were also able to agree that 3p/1p in October 91, 1p/0p in October 92 and 1p/1p in October 93 was the right sort of underlying tariff increase pattern. As well as enabling the Post Office to finance its capital investment needs - the 1991 increase is expected to fund more than one third of the Post Office's £1400m capital investment programme over the period - the tariffs are skewed so as to support investment in the 1st class stream, since much of the new investment is needed for supporting the quality of the next-day service and because there will be presentational advantage in restricting the price of the 2nd class service. If we fail to secure tariff increases of this order, we will need to consider how to handle the effect on the Post Office's external financing and capital investment programme.



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My officials will, of course, be in touch with yours about the figures for the Autumn Statement.

On ECGD's interest support programme, I have no objection to your suggestion that, if circumstances were to alter significantly, we should have another look at our policy in the early part of next year.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

Yours ever

Peter

