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NATIONAL FEDERATION OF SUB-POSTMASTERS

REPORT OF A JOINT MEETING

OF THE

NEGOTIATING COMMITTEE

AND

POST OFFICE COUNTERS LIMITED

held on

3rd JUNE 1997

at

THE GRAFTON HOTEL, LONDON

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Present: NFSP: Mr. A. Burrows (Chairman of Negotiating Committee)
Mr. J. Burford
Mr. A. Butlin
Mrs. J. Kendall
Mr. J. Peberdy
Mr. C. Baker (General Secretary)
Mr. K. Davis (Assistant General Secretary)

POCL: Mr. J. Evans (Network Director)
Mr. M. Granville (Head of Agency Pay & Contracts)

MR. BURROWS welcomed Mr. Evans and Mr. Granville to the meeting.

THE GENERAL SECRETARY explained the main purpose of the invitation was to understand what the Counters Business was saying in regard to the Government at the moment and their proposals. There were three main areas on which information was sought:-

1. Finance and training, quality, security
2. Automation - roll out delays, payment for training, modifications, satellite offices, any change of plans
3. Network plans - private business, image, conversions, rural network and the size and shape of the network.

MR. EVANS: The Minister had written to the Chairman of the Post Office on 12th May. There had been some *to-ing and fro-ing* between Officials before then. The basic points were: new Government, manifesto to give Post Office greater freedom, wants urgent high priority review and how that can be achieved. The Minister wrote of concerns about conversions and asked for them to be suspended. The Chairman agreed. Did flag up importance of conversion programme and said we would want to explain to Government just how significant it was and implications of stopping it. The Government said that there would be some conversions which were unstoppable. We were having to define what an irreversible commitment meant. Whereas Regions had on 12th May probably 40 or 50 conversion cases in various stages of maturity, that number now reduced to 6 cases which the DTI had agreed will continue to proceed. All others to be on hold, effectively meaning it will be

very difficult to wind them back up again quickly if temporary suspension is reviewed. I think it has meant conversion programme has stopped apart from those 6.

In our operational plan and budget for the year we are now in, we are a sixth of the way through, Regions forecasting about 50/60 conversions. The biggest cost saving measure which underpinned the budget. Expected to generate about £7 million in licence fees and to generate about £3 million from the operational savings you make from replacing a Crown Office with a Franchise Office. Looking at £10 million benefit with a flow through benefit next year. That was £10 million closed off; do not know how long review will take. Hard to say if conversions can be switched back or when that would be. We have had to assume that we will not be doing any conversions other than 6 in this financial year. It is an assumption and may be wrong. It means we will be £10 million light. Abated to a degree by £4 to £6 million because we will not have to pay redundancy costs to people working in those offices. Net effect is £10 million less £4-6 million.

Other costs now realising to incur, Regions will have to start spending money on those 50/60 Branch Offices they would have expected to have off the books, could be talking about significant sums in either replacing Branch Office or we will have to do Health and Safety improvements. Obligation to customers if Branch Office tatty and run down, it will have to be refurbished. Anticipate £2-3 million cost in this financial year. If no more conversions this year it will take £6-8 million off the bottom line in a year when expecting to make a profit of £30 million.

John Roberts and Chairman seeing the Minister tomorrow (*4 June 1997*) and will be making those points strongly.

MR. EVANS: Let me talk about the review. I think it is fair to say that from the exchange of letters there has been and reading what the DTI said in their press release, we are no wiser at all about how this review will be conducted. Apart from knowing you and other unions being invited to talk to the Minister, there has been no indication on timescales, external advisors,

THE GENERAL SECRETARY: As far as I can gauge it would be phased and the first phase was a scoping of the problem. There will be further stages and opportunities as he begins a problem solving process. Greater freedom - going to look at its widest context. Also wants to make sure competition aspects are well covered. Does the Minister have responsibility for competition?

MR. EVANS: Not sure, he has responsibility for minimum wage.

THE GENERAL SECRETARY: The Minister wants to understand the problem by the summer recess. Then wants to put a paper to his colleagues and then look at the bits and pieces in detail. If his colleagues allow him to. There is some doubt whether he will get a legislation slot. He has regulators

in mind. The position he is coming from is Post Office wholly in the public sector and together.

MR. EVANS: One of the impressions we have, which this backs up, is this is almost a one-man review, which is interesting. John Roberts and the Chairman putting a presentation to the Minister of what commercial freedom might mean to the Post Office, particularly in a Royal Mail context where opportunities greater but also in Counters because we have to go to DTI whenever we want an additional product which is an inhibition. The Chairman and John Roberts will also go through logic of conversions.

MR. EVANS: Financial impact - potentially looking at sizeable hole in our finance and if conversions continue to be halted it would drive a coach and horses through our Business Plan. 5 Year Plan which assumed conversions at the current rate. If no conversions by the end of 5 year period the business would not be making a profit. Conversions are underpinning the financial headroom to invest in other parts of the business. If that is cut off it would undermine the strategic model of the business. We will flag up to the Minister if we are prevented from doing conversions that it has very serious repercussions for the viability of Post Office Counters as currently targeted. That is not saying we will immediately want to jump a relief on targets. We want to run a business that is sustainable. If we cannot continue doing conversions we would be forced to look at addressing that cost base issue in a different way. We may well have to get into size of network and ways in which we can address our cost base.

MR. EVANS: We will say the target is unachievable. We are back to the way the strategic model works. If we cannot generate savings to reinvest in other parts the whole edifice collapses. We cannot give competitive price to clients. The big impact potentially that you would find most untenable is we would have to bear down on the size of the network. When talking about sums of that magnitude you are into drastic measures to recover.

THE GENERAL SECRETARY: Last time you said cutting the network does not cut costs.

MR. EVANS: This would have to be measures on a sizeable scale - it is surgery.

THE GENERAL SECRETARY: Reducing the size of the network will reduce its capability to sustain itself.

MR. EVANS: Indeed, which is why over the years we have tried not to reduce the size of the network. To respond to the scenario now presented to us we would have to respond in a like way. Cutting the network would be one of many parts which we would have to pursue.

MR. BURROWS: Have you any feel for the size of the reduction?

MR. EVANS: No.

MR. BURROWS: You use the word "significant".

MR. EVANS: If you want to recover £30 million by closing post offices you are talking about thousands. The rural network do not wash their face to the tune of around £30 million.

THE GENERAL SECRETARY: Will John Roberts and Michael Heron put that sort of point and detail to the Minister?

MR. EVANS: I think so.

THE GENERAL SECRETARY: Would they not be arguing for a reduction in targets? The ensuing result of your action could lead to a reduction in the size of the network.

MR. EVANS: We believe it is important for Post Office Counters to retain the ability to run its network in the most cost-efficient way. If we are hide bound by being forced to run offices in a way that freezes in that delivery mechanism that is an uncommercial thing to force us to do.

THE GENERAL SECRETARY: How realistic do you think you will be with that threatening approach? How realistic with Alan Johnson sitting there? Do you realistically expect to re-generate the conversion programme?

MR. EVANS: I do not know the answer. We want to understand from Government two things. What are their actual concerns about the conversion programme - in the Minister's letter to the Post Office they expressed concern. Only concerns we know of are CWU which is about loss of members, although they say customer service, franchise. John Roberts and the Chairman will say what are the concerns to the Minister. The Minister will be asked - If you still want to stop us from conversions, what is your approach to the whole in the business plan?

THE GENERAL SECRETARY: Who sets the Counters contribution to the Government target?

MR. EVANS: The EFL for Counters is part of the Group target, so Government does not actually say how much EFL Counters should produce. Counters profit is set by Government at 2.9% on turnover.

THE GENERAL SECRETARY: We have been concerned about the current financing of the Counters Business, training, security budgets. What is in store for us on training and particularly security?

MR. EVANS: Cannot answer in detail. We have already had to go back to Regions this year to make budget cuts just to meet the profit target. 1997/98 and the next year, and year after, we are facing a very large peak of costs

around Horizon. We will be picking up costs because putting in people to help alongside the implementation and the training of has pound signs attached. We will paying Pathway for the use of the system increasingly before we start getting the real benefits from new business on the platform. If you look at the business plan of Horizon it costs us a lot of money and because we are now getting nearer to implementation it has meant we have had to put aside more money for Horizon implementation this year and have had to say to Regions and other parts of the business we have to save more money. We are in the middle of an exercise to see what we can switch off to save money and resource.

THE GENERAL SECRETARY: Regions say we cannot afford to meet security bills and in the same way the Government are behaving now by stopping conversions - you are behaving the same way with Sub-Postmasters. You are asking a lot of people but not being able to meet your share of it.

MR. EVANS: Well I cannot imagine Retail Network Managers saying here is opportunity, can we persuade Sub-Postmasters to do up premises, but from the pot of money we cannot afford to help this Sub-Postmaster to move his safe or alter screen in the quantities any of us would want it to be.

MR. BURROWS: Is it being re-deployed because RNMs appear to be using restrictions as an excuse not even to offer. It is an easy opt out for the business.

MR. EVANS: I do not think that is being deliberately to save money I now have all Regions reporting to me and am convinced from all of them they are sufficiently under the cosh financially, some more than others. The headline of the financial position of the business irrespective of conversions is because of peak costs of Horizon implementation.

MR. BURROWS: There is a situation of some Sub-Postmasters naturally requiring refurbishing. There are, however, others who are verbally blackmailed into improving and refurbishing and they do, knowing the business would pick up the security costs, but are then let down.

MR. EVANS: If you know of individual cases where undue pressure is being put to bear it should be taken up and pursued through the Region. It is not our line at all to lean on Sub-Postmasters. We are all seeing huge benefit to synchronise refurbishments with Horizon but the sums of money to transform the network are not there. But it does not mean we should be trying to screw Sub-Postmasters.

MR. BURROWS: Some Retail Network Managers actively encourage Sub-Postmasters to do refurbishments and perhaps it is not actually necessary.

THE GENERAL SECRETARY: The other end of the spectrum is to be considerate by acknowledging that you cannot stand a share of the costs, when asking Retail Network Managers to be sensible.

MR. EVANS: In the end Sub-Postmasters can say no.

MR. PEBERDY: These things were encouraged last year and are percolating through. Now arrived in this financial year with the refurbishment and the Regions saying you have to pay. There is a problem because the contract refers to certain levels of payment for re-siting security equipment. Sub-Postmasters perceive Romec to be expensive. There have been 100 refurbishments in the Midlands alone.

THE GENERAL SECRETARY: At Nutfield Priory training was identified as a top objective. Has that become a victim? Training for incoming Sub-Postmasters and on-going training.

MR. EVANS: That is part of the bedrock of the business. There are ways in which we can improve, I have not seen any suggestions that training should be switched off.

THE GENERAL SECRETARY: What about the quality drive, the EFQM; is Business Excellence going to continue or wound down?

MR. EVANS: It is a cost but quality cannot be seen as an operational extra to switch on and off if you can afford it. To continue running the business in a total quality way is probably more important than before. Whether that means we will do the same number of unit excellence reviews or Regional reviews is another matter. I think there are some arguments for easing down on that. Do not read into that that we are giving up on quality. That is not true. Stuart Sweetman is firmly committed to business excellence approach.

MR. EVANS: You raised issue of short term consequence of conversions. We are having to assess the repercussions on us and we are not completely through that. One thing which it will force us to do is to reconsider all of the cost elements we are expecting to incur in the coming year, including pay. Therefore, the practical implication is that whereas you would be expecting shortly to get into firm negotiations on pay, we are not in a position to do that. To put it bluntly, what we were previously expecting to be able to afford we are having to reconsider. Our objective and whole strategy has been to pay Sub-Postmasters at an appropriate rate and is still our intention but we cannot just blindly say we can carry on doing that whilst all this noise is going on.

THE GENERAL SECRETARY: You will be re-visiting every facet for every part of the business?

MR. EVANS: The assumptions of what we can afford this year have been undermined.

MR. BURROWS: Is that your philosophy?

MR. EVANS: You are aware of this. We are going to have to re-think where the Business can spend money in the coming year and that will include how much we can afford for pay rises. No offer has been made to any group, and neither will there be until we know where we are. The only way is down on what we were expecting to pay.

MR. EVANS: I suggest you tell the Minister you have had early indications from the Post Office that they regard suspensions of conversions this year has been so great it has had effect to curtail activities this year.

MRS. KENDALL: Because of this tremendous problem of non-conversions was it wise to base profits of business on conversions and to meet targets based on selling off the family silver?

MR. EVANS: I am all ears for suggestions. The business makes on average 3% return on its income and Government target is 2.9%. So to replace £6 million of costs, to replace with additional business you need £200 million worth of income to generate £6 million profit at 3% - equivalent of 4 new DNS contracts.

THE GENERAL SECRETARY: Leaving finance, let us look at automation and start off by giving us the cost of automation to Counters Business which we believe is £24 million.

MR. EVANS: It is a figure which we do not have to spend. In that since it is ring-fenced. We want to make sure Horizon is implemented properly and that was the last estimate.

MR. BURROWS: Do you see the financial situation delaying the automation project?

MR. EVANS: No, of being able to resource it properly, no. It is still our top priority to see it through and will want to give it our best shot. I am not saying we cannot now afford to do it. That would be one of the last things.

THE GENERAL SECRETARY: Are there any further delays in the roll out?

MR. EVANS: Depends on the last information.

THE GENERAL SECRETARY: I was with Paul Rich and John Bennett last Wednesday and they did not report any further delays but there is some rumour.

MR. EVANS: There is something going on and apologies because I have not assessed the latest position. Suffice to say there is a potential further delay knocking around. I cannot say precisely what at this stage.

THE GENERAL SECRETARY: There are disturbing rumours being received about non-cash account offices being approached and the Sub-Postmaster being scared witless when it is put to them prematurely to decide whether to become cash account offices and this is proving to be the last straw.

MR. EVANS: You reckon this is encouraging people to go.

THE GENERAL SECRETARY: Yes, but may be not intentionally.

MR. EVANS: Let me have a note.

MR. BURROWS: I understood laptops were to be provided for satellite offices but a Sub-Postmaster has been told make up his mind because no equipment will be installed.

MR. GRANVILLE: No pressure should be put on non-cash account offices to become cash account offices.

THE GENERAL SECRETARY: If you need to be a cash account office for automation, then why put them through cash accounts pre-automation?

MR. GRANVILLE: The issue is preparing ourselves. The aim is to ensure when offices are automated that suitable kit goes into suitable offices. In the absence of a clear resolutions at the moment no pressure should be put on people. If there are individual cases please feed them through.

MR. BURROWS: May be over active Retail Network Managers but there are a number of cases of RNMs going to smaller offices and saying "make up your mind". Are we going to have satellite offices under automation or will they all go? I understood we would have a lap top which would go back to the host office and then transfer onto the main frame.

MR. GRANVILLE: I do not think the technological solutions have been reached yet. What you describe sounds like over activity. We will follow it up.

MR. DAVIS: I have heard about individual cases but I still feel uncomfortable because if we bring a case that Sub-Postmaster has already been scared and it may be too late. That is not the way to approach it. The cash account is a horrendous document to complete.

THE GENERAL SECRETARY: This is only because they need to be a cash account office for automation. Why not wait?

MR. DAVIS: Please withdraw the ACC because it puts the wrong message out.

MR. GRANVILLE: The issue is not looking to frighten. Where there is a sensible opportunity to become a cash account office it seems sensible to take it. Not looking to frighten. Issue is automation itself reduces the fear of doing the cash accounts.

MR. EVANS: If there is activity in the Regions which is causing force majeure closures we want to know. It is still Post Office Board policy to retain the rural network and we should make every attempt to do that.

MR. GRANVILLE: There needs to be clarity of the message in what we are seeking to do. We are not about frightening or creating unnecessary work.

THE GENERAL SECRETARY: There are other issues of automation. No Sub-Postmaster has been asked to pay any money for screen modifications or alterations to their office at all. Is this applying across the Board? There is also the issue of training. When are we going to address that?

MR. GRANVILLE: We need to arrange an early meeting to discuss the issue of training and multiple transactions and some pragmatic issues on which knowledge is becoming clearer as activity in the North East develops.

THE GENERAL SECRETARY: I now suggest that we discuss the general size and shape of the network. If the Post Office has been stopped from doing conversions would they start to create another type of post office? Activity, particularly in Northern Ireland where their activity seems to have gone mad. We are seeing more re-siting and re-locating in Northern Ireland than anywhere else. I do not understand why and neither do Sub-Postmasters in Northern Ireland. I think we would like to understand the global network message, the direction of the 5 year plan.

MR. EVANS: I am happy to give you some thoughts. This would lend itself to a proper thought through session when I could lay out a lot of the plans we have.

It was AGREED to convene a Network Forum meeting (*Note: subsequently arranged for 7th July 1997*).

MRS. KENDALL: When you talk about reigning back and conformance, will conformance be stopped?

MR. EVANS: Conformance is wrong expression. We are trying to raise standards in the network - network transformation. The reason for activity in Northern Ireland is because for last 10 years they have been very inactive and because of political change able to now change. We have decided it should not impede the Horizon implementation, we should not try to transform a network or get a Sub-Postmaster to refurbish if that in any way jeopardised Horizon. The top objective of this year is we want to continue transforming the network.

THE GENERAL SECRETARY: The consultation process with the Federation seems to have ceased. Distance standards also seem to have fallen victim to time. We would like to raise those two issues in a constructive way when we talk about network with you.

MR. EVANS: I would much prefer if the Federation and Branch officials were alongside with what we were trying to do with network transformation. If there are opportunities to achieve that then by all means.

THE GENERAL SECRETARY: What has the DTI rejected when Post Office Counters has approached them for new work?

MR. EVANS: The DTI turned down entertainment tickets, car insurance. Because it is a finite market would like to make up our own mind, not go to DTI.

MR. BURFORD: What timescale would it require to get back on track?

MR. EVANS: If tomorrow the Minister says suspension is off, there is probably enough time to recover many of those stood down. That is not likely to happen. If it goes on for 2 to 4 months we will have stood down all those potential partners so much they would have gone away. EVR options remain changed. Effectively starting from scratch again on trying to find conversion solutions in those outlets.

MR. PEBERDY: Have some cases of conversions been put to the Minister and he has said you cannot go ahead? I know a Sub-Postmaster who has costs involved, paid half a licence fee, legal fees etc. Will there be compensation for those people?

MR. EVANS: Those potential changes who think they have costs incurred for which they want compensation should write to us.

THE GENERAL SECRETARY: We are grateful for the time and sharing of information. But we only seem to share information when we have trouble. It would have been better if we could share information all the time.

MR. GRANVILLE: I cannot update the position as it stands. I will check with Paul Rich, issue is when best to make the pitch. I will find out and feed back to you. It is about getting time right for maximum advantage. A little later than originally perceived but in the light of all the circumstances it was better to buy a week or two of time. Will check out and get back to you.

MR. BURROWS then thanked Mr. Evans and Mr. Granville for their attendance and participation.

GRO