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CONSIGNIA EXECUTIVE BOARD

AUTHORISATION LEVELS THROUGHOUT CONSIGNIA

Introduction

One of the Board's key responsibilities is to decide on the level of delegation of it's overall authority. This proposal contains a clear, comprehensive, consolidated and swift method to discharge that responsibility.

1. The ideal level of devolved authority is one that balances the need to allow front-line flexibility and unit autonomy with the need to ensure that efforts are co-ordinated and directed to group goals. This balance depends on the group's situation and can vary over time.
2. This report proposes a template to set out and communicate clearly the levels of authority across Consignia. The report also reviews the appropriateness of the levels of authority delegated to the individual business units in light of changing business circumstances. The report consolidates current levels or proposes revised levels of authority for Consignia. Appendix 1 shows the template. Appendix 2 gives explanations for the levels proposed.
3. Reference has been made to the new authorisation levels proposed by the Mergers & Acquisition team (M&A), business unit charters and focus, as well as benchmarking with equivalent templates used by other listed and regulated UK companies. The template goes further than the benchmarks used, as it recognises key areas for decision in the Revenue cycle.

Background

The current levels of delegated authority were set in 1999 and now need to be reviewed in light of the change in business circumstances. Also in some cases, limits are not in place or not clear.

4. The current principles, method and levels of authority were set by Shaping for Competitive Success in 1999. Since that time, there has been considerable change in the circumstances of the business and the environment in which it operates. This change and the urgent need to maximise revenue, reduce costs and strictly manage cash means that a revision to the approach is appropriate to make sure that decisions are made at the appropriate level and are consistent with the Board's strategic objectives.
5. A change of approach in line with the external benchmark methodologies will enable greater visibility of expenditure at Board level ensuring focus on delivering the new restructuring, recovery and renewal programme.
6. The previous Consignia project and acquisition authorisation levels of £20m

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for the Consignia Board and £10m for the Investment Board were set by SCS in 1999. The levels are consistent across all business units and have not been amended since SCS, with the exception of Packages & Express who recently independently reviewed their existing levels. The M&A team have produced a new devolved powers document; which significantly lowers the limits of devolved powers, to enable the Executive Board and Consignia Board a higher degree of involvement in the decision process around project and acquisition expenditure. The Consignia Board has reviewed the new M&A devolved power levels, although final agreement is still outstanding. The proposed M&A levels are reflected in the template in Appendix 1.

Comparison to External Company Approach

Levels of delegation of authority to Consignia business units are much higher in general than the limits set by benchmark companies.

7. Consignia and the benchmarked companies currently operate at different ends of the authorisation limit spectrum. The benchmarked companies set lower levels of delegated authority and therefore typically have higher visibility of Group-wide activity than our current levels.
8. The level of authority devolved to Consignia business units is constant regardless of areas of expenditure, whereas the external companies vary the authorisation level depending on the type of expenditure. The current Consignia method allows business units a higher degree of authority to commit to expenditure without reference to the Board or Group Centre than the companies reviewed. The current Consignia approach provides greater potential for conflict with the strategic direction of the company.
9. Whilst comparing Consignia and the benchmarked companies it is important to consider the following: -
 - Strategic goals and objectives may not align
 - The companies may have different scarce resources and risk appetite
 - The inherent risks of the industry sectors is different
 - The size and number of individual business units is different.

Consignia Proposed Template Implications and Benefits

The template allows the Board to discharge it's responsibility to clearly communicate the delegation of authority across the Group. The template can be used to implement Board direction of level of delegation and risk appetite.

10. Revision of the levels of authority for business units will provide a tighter centralised procedure to co-ordinate discretionary expenditure, channel scarce resources into major areas of importance and consider all areas from a strategic rather than business unit perspective. A proposal for revised levels of authority is contained in Appendix 1 to this report.

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11. The proposed levels of authority give the Consignia Board, Executive Board and M&A Team greater involvement in the key decisions made throughout the company whilst not creating an over bureaucratic process and keeping an appropriate level of autonomy for business units. The more structured approach may result in additional Group Centre resource requirements to deal with the additional requests for authority from business units. However this costs needs to be compared to the necessity of reducing the current losses incurred throughout the business. The proposed levels have the purpose of “reigning in costs” and therefore we expect that this will reduce the additional number of requests received. It is important that the spirit of cost reduction in the new proposals is communicated throughout the business to ensure that unnecessary time is not spent producing requests that have a limited chance of being authorised.
12. The levels of authority should be reviewed regularly or as a result of a particular event (e.g. the combination of business units or the closure of product lines). The Commercial and Business Strategy Unit within Group Centre should review the authority levels and the Consignia Board should approve any revisions made.
13. Ultimately the decision on what limits should be set sits with the Consignia Board as a means of maximising the achievement of strategic goals. Consignia can use the authority limits proposed within this report as a sliding scale to control the business dependant on changing circumstances.
14. The basis of the values proposed in Appendix 1 for each of the individual areas has been produced to reflect current levels drawn from the business unit charters, business unit focus and the impact on scarce resources. In addition, the values have been reviewed in comparison to those used by the analysed external companies. However, a wider range of values has been proposed within Consignia due to the variation in Consignia business units’ function and size. All of the areas detailed in the external benchmark company policies have been considered. Appendix 2 has detailed explanations to support the proposals made by GIA&RM.

Conclusion

15. The Executive Board is invited to consider the template and revised levels of authority proposed by the report and approve their deployment within Consignia.

Derek Foster
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Explanation of Key Proposed LevelsAcquisitions and Projects

Acquisition and project expenditure levels including project closure/continue decisions have been set by the M&A devolved powers document.

Treasury / Insurance

Short term loan facilities >£25m: To ensure that any short-term loan requirements do not indicate a fall in liquidity beyond the forecast position.

Capital Expenditure

Capital expenditure forming part of a project is now covered by the proposed M&A devolved power levels. Other capital expenditure is devolved to the business unit with a method that considers risk and necessity. Where capital expenditure is below the devolved power limits it is still expected that Group Centre would authorise the following areas:-

- **Purchases (non-project): Contracted services (>£100k):** The level has been set to ensure compliance with the OJEC rules. Expenditure requiring compliance with Official Journal of European Communication (OJEC) procedures should be approved by Purchasing Services to ensure all requirements of the rules are met.
- **Purchases (non-project): OJEC expenditure (£2.5m):** As above, for compliance with OJEC rules. Where the expenditure meets the requirements of the M&A team analysis then those proposed rules should take precedence.
- **Purchases (non-project): (£2m-£500k) dependant on the business unit:** The values proposed are to ensure that the purchases meet the strategic requirements of the whole business.
- **Impairment provision (£250k):** To ensure new risk areas are highlighted as it is expected that all existing issues have been evaluated and written off in 2001/02.
- **Non lease expenditure (£500k):** Payments will have a direct impact on the cashflow position of the company and therefore this area should be considered on a group wide basis to ensure that the full impact is understood.

Revenue

- **Variance in regulatory price charges:** Where revenue is derived from a regulated section of the business the price variations should be authorised at the Consignia Board level in consultation with the Regulation team to ensure that the relationship with the Regulator is managed in line with direction pursued by Consignia. This would cover all areas where there is a regulatory impact.
- **Variance in charges (non-regulatory) below approved cost models:** Managed from a business unit perspective to maximise the customer relationships gained however discounts offered below agreed cost models should be authorised at an Executive Board level to maximize the quality of earnings.
- **Debt write-offs:** Limited to the market facing units under the proposals within this report and include values for one off debts and total debts for the year. The one off debt levels have been set in line with the Executive Board paper on Accountabilities For Revenue Management.
- **Unapproved credit ratings levels (>£50k):** This should be referred to Group Finance as the potential risk will need justification. The value noted includes the

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fast growing customer accounts as the credit ratings should be reviewed on an ongoing basis. Any excess above the credit levels set are based on one credit level per customer across all Consignia business units, as detailed in the Executive Board paper on Accountabilities For Revenue Management.

- **New company credit levels (>£100k):** The method of ensuring prepayments before a service is delivered reduces the risk to the Consignia. In cases where credit is offered beyond the values proposed from external credit reference agencies this should be referred to Group Finance.
- **Tailor made incentives (£100k):** These discounts are offered to new clients or one off pieces of work and therefore are beyond the normal regulatory controls. This type of transaction should be apply to market facing units only and be approved at GMD or EB level as noted in the proposal.
- **Credit notes/J dockets per item (>£100k):** Should be reviewed at Executive Board level to establish if there are weaknesses within the revenue processes that could impact more than one business unit or customer.

Expenditure

- **External management consultancy:** To ensure that only necessary expenditure is incurred, to establish if there are common concerns around individual consultants and to ensure all current and future corporate governance requirements are considered.
- **Customer compensation payments per item (>£25k):** To ensure that the GMD has an understanding of common trends and key improvement opportunities.
- **Advertising per campaign (>£3m):** Authority limits have been set for the market facing units only. The reason for this is to maximise the knowledge of marketing within those units and to create a cohesive policy for each campaign. All of the other business units should co-ordinate their advertising expenditure through these units. The proposed levels set are to give each business unit autonomy as well as allowing the Executive Board to co-ordinate a focused campaign.
- **Staff entertaining per event (>£5k):** To ensure a consistent approach across all business units.
- **Corporate hospitality per event (>£5k):** This would be optimised on a case-by-case basis in each business unit. Where the event exceeded the level shown the decision should be validated at GMD level (for example, to consider if other business units would benefit from attending the event).
- **Charitable donations per annum (nil):** A central fund is held in Group for allocation as appropriate.

Staffing

- Remuneration procedures should follow levels agreed at Consignia Board level and Remuneration Committee at the beginning of the financial year due to the impact of salary increase on the cost base.
- The Executive Board should authorise bonus payments to ensure the levels set align with the main business goals.
- Issues concerning relationships with the Trade Unions should be communicated to the Executive Board where the impact would mean degradation of the brand or reduction in efficiency as a result of strike action.

Legal Claims

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Any matters relating to legal settlements should be handled in the line, with advice from Legal Services in each case. More significant amounts should be referred to GMD or EB as noted.

Major policy on submissions to Postcomm

The tone, direction and principles of the relationship and totality of submissions to Postcomm should be set at Consignia Board level. Documents sent to the regulator should be driven by and channelled through Consignia's Regulatory Department.