

**RESTRICTED - POLICY**

*Reference RWW/1/04*

To:

MR JOHNSON

From:

Martin Brebner  
Post Office Reform Team  
CGBPS1  
Room 414 BPR  
215 1612  
6 August, 1999

ci PS/Secretary of State  
Mr Macdonald  
Mr Sibbick  
Mrs Britton  
Mr Whitehead  
Mr Tee - NEWS  
Ms Bishop - NEWS  
Mr Corry SpAd

**POST OFFICE REFORM: MEETING WITH NEVILLE BAIN AND JOHN ROBERTS -  
10 AUGUST**

You are meeting Neville Bain and John Roberts on Tuesday at 10am for an introductory discussion.

Neville Bain has written to congratulate you on your appointment (see attachment 1), and has suggested a number of items for the discussion, ie:

- rewarding employees;
- the monopoly threshold;
- interaction of the financial demands of the Regulator and the Government;
- restructuring the balance sheet;
- investment approval process.

We suggest that you also cover briefly at the meeting:

- the Strategic Plan;
- the implementation of the Reform package;

Lines to take on these points are attached. The background on these issues is fully set out in my submissions of 5 August.

You may also wish to raise some issues about the counters' network - David Sibbick will be briefing separately on this.

David Sibbick, Mike Whitehead and I are available to support you at the meeting (and to attend the briefing meeting at 9:45).

**GRO**

Martin J Brebner

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**RESTRICTED - POLICY****POST OFFICE REFORM: MR JOHNSON'S MEETING WITH NEVILLE BAIN AND JOHN ROBERTS - 10 AUGUST****Lines to take**Introduction

Delighted to have the Post Office within my portfolio - grateful for your kind letter of 3 August. I also look forward to a productive relationship with you as we implement the valuable package of reforms described in the White Paper.

Hope that we can meet on a fairly regular basis - though not so regular as to undermine the "arm's length relationship." We will naturally need a fairly early meeting on the Strategic Plan.

There are still a few issues outstanding in your correspondence with Stephen Byers - resting with your letter of 13 July *[attachment 2 - the SoS has acknowledged this, but not sent a substantive reply]*.

Rewarding employees

I know that you submitted proposals early in the year - they have certainly been looked at, and acknowledged in the White Paper. Now that the White Paper is published, I shall be pressing my Treasury colleagues for a substantive response, so that we can move forward before next Spring.

Monopoly threshold

I know that in the questioning following the statement on 8 July, Stephen Byers replied (to me!) that he thought index-linking of the monopoly threshold (and this is one of the three points in your letter of 13 July). You will appreciate that we do not want to amend the Order that has now been laid, setting the threshold at 50 pence, 150 grams, from next April, but we will charge the Regulator with considering the options for index-

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linking as part of the work that must be done on the monopoly threshold within a year of appointment.

You may like to know that Derek Hodgson has been pressing very hard for an increase in the threshold to 200 grams or 66 pence (from next April), but we have decided that this is not a runner, and he should be getting a letter from Stephen today or tomorrow.

*Interaction of the financial demands of the Regulator and the Government*

I know that this is also one of the outstanding issues in your correspondence with Stephen Byers. We do not see this as being such a great problem, but it is in nobody's interest to have ambiguity or uncertainty in this area. Stephen will be replying to your letter, and we will probably try to set out in more detail how we see the process working.

*Restructuring the balance sheet*

The broad principle is set out in the White Paper - after April 2002 you should, in principle, no longer have on the balance sheet the accumulated deposits/gilts that represent the "dividends" payable to Government in past years.

We are about to engage consultants to help advise us on the most sensible way of restructuring the balance sheet - not least to make the Post Office (plc) look much more like a normal commercial company. Officials will be liaising with you to ensure that there are no conflicts of interest of this appointment.

In restructuring the balance sheet, we will take full account of the agreement that you should have the benefit of some of the deposits/gilts to help fund the modified Horizon project.

**RESTRICTED - POLICY***Investment approval process.*

I also gather that there may be a request to approve borrowing around the end of the month - how is that case developing?

I gather that the process used to approve the acquisition of German Parcel worked pretty well, and we will want to follow similar arrangements for further major acquisitions and investments. We are taking steps to engage financial consultants to advise on such cases - we should have someone in place by the end of the month.

The criteria for approving major investments is one of the three outstanding issues. Stephen Byers is planning to meet Alan Milburn as early as possible in September to try to resolve the vexed issue of "affordability".

*Strategic Plan*

I have seen the Plan you put forward at the end of June, and know that you were about to meet Ian McCartney in July to discuss approval of the Plan and agreement on the borrowing envelope. I hope that we will be able to re-instate that meeting in early September, so that approval is not delayed too far into the financial year, and we can get the "arm's length relationship" firmly established.

Prior to a meeting it might be helpful if your people liaise with officials to try to clear any outstanding points of detail.

*Implementation of the Reform package:*

You are aware that we have a slot for a Bill to complete the reform package in the next session (though you also know that nothing can be said publicly until the Queen's Speech on 17 November - the CWU and POUNC have not been told). Officials will be liaising with your "Bill team" - I hope that the good rapport which existed during the drafting of the White Paper will be continued.