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Date: 10 August 1999

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

1. You were present today when Mr Johnson met with Neville Bain and John Roberts. The meeting was friendly and reinforced our links with the Post Office, but it also underlined the Post Office view that they have now gone as far as they can (in terms of compromise) and that they will now be looking for DTI assistance in some of the difficult issues ahead, such as agreeing the relationship between the regulator and government, approval of the strategic plan and finalising the process for agreeing acquisitions (particularly ensuring that Treasury do not prove to be an insurmountable stumbling block). I would be grateful if you could advise further on/note in particular those sections which I have underlined.

2. Mr Bain started by congratulating Mr Johnson on his appointment and saying that this was an extremely important time for the Post Office where there were some challenges ahead and he was happy that Mr Johnson had been picked to deal with them. Mr Johnson thanked him and emphasised that his role had clearly changed from their previous dealings. He was a Minister, not a CWU representative, and he was keen to ensure a balanced line was taken in the interests of the Government, and no-one else.

3. The discussions then continued concentrating on specific issues, as follows:-

Rewarding Employees

4. Mr Johnson said that whilst he did of course want the Post Office to have a certain freedom to reward employees as they felt appropriate, it was necessary for the Post Office to recognise the very real constraints on Government. The Post Office is still a publicly-owned body with 180,000 employees. It would not be possible for the Government to give the sort of freedom that the Post Office might like. John Roberts asked when the Government would formally respond to the Post Office's proposals on rewarding employees and asked how it will fit in with the October pay talks. *It would make life very difficult for the Post Office if the proposed changes were to be announced in the middle of the negotiations with the CWU. Mr Johnson promised to get back to Mr Roberts with detailed timing arrangements but indicated it would likely be in Spring 2000.*

5. Mr Johnson said he was also aware there was a problem with executive bonuses. Mike Kinsie has written to Mr Johnson requesting a meeting (which Mr Johnson is inclined to accept). Mr Johnson likened the current situation to being a stick and carrot scenario, with perhaps too much stick being waved at present. Mr Bain added that there were horrendous delays by HM Treasury in clearing executive bonuses - this is simply not acceptable when PO executives are already being paid less than the going market rate because of their public sector status.

5. Mr Bain invited Mr Johnson to attend one of the PO Board meetings at some point in the future, as Mr McCartney had done in the past. Mr Johnson indicated he would be delighted to and said that he was very keen that Government and Post Office work as close together as they can now in order that the Post Office does not have to work closely again with ~~any subsequent governments~~ *Government in the future.*

Monopoly Threshold

6. Mr Roberts said they were well aware that the CWU had been lobbying the Secretary of State. Mr Johnson said that the Government had considered their arguments carefully but had decided to stay with the 50p level. Mr Johnson did however indicate that he was keen to explore further the possibility of linking the tariff to, say, a formula of double the price of the first class stamp (-2p). He said that the price of the first class stamp being likely to come down, this would reduce the monopoly tariff and bring in an "RPI minus formula". Mr Johnson said that this is the way it is done in the US and the rest of Europe and he felt it would be a good way forward. Mr Johnson indicated that he would prepare a paper for the Secretary of State explaining the pros and cons of index linking the monopoly tariff and consider the matter further. Mr Roberts said that ~~he was happy with the~~ *the Post Office accepted a reduction in the monopoly threshold level of to 50p as and felt it was* an important part of a broad package of measures *which on balance worked to the advantage of the Post Office.* . He did not comment explicitly on the suggest of index linking with a minus formula. There was agreement that we should argue strongly against any attempts by Europe to liberalise by content.

Interaction of Regulator/Government

7. Mr Bain said we must be very clear about the Regulator's role. It was particularly important that the Regulator's power to dictate on social responsibilities was as unambiguous as possible from the outset. Mr Roberts agreed this was extremely important. Mr Johnson said that these matters were currently being considered and Mr Byers would be in touch with them shortly. Mr Johnson said that he did not think that defining the roles of the regulator/government was as difficult as the Post Office believed. Mr Roberts said that what was important was that we had a plan in place and that we needed to establish a pattern as to who does what etc.

Review of the Strategic Plan

8. Mr Bain said that he would like to give a presentation to Mr Johnson on this. Mr Johnson said he would be happy to receive this and it would be arranged for early September.

Restructuring of the Balance Sheet

9. Mr Johnson said that we were about to engage consultants to help advise us on the most sensible way of restructuring the balance sheet. Mr Roberts said that they had no problems with this and agreed that ~~it~~ *restructuring* was *probably* long overdue. He said that it was particularly important given that the Post Office was now setting out to be a forward looking and modern organisation.

Investment Approval Process

10. Mr Roberts indicated that they would be seeking to make their first request for approval of borrowing around mid-September. They were preparing a strategy for target countries (keen on Austria and the Netherlands) and there could be more. Mr Roberts felt however that the requirement for HMT to establish "business efficiency" was disgraceful. Mr Johnson said that he was well aware of Post Office's views and that the Secretary of State was due to discuss the matter with the Chief Secretary early in September.

Implementation of the Reform Package

11. Mr Johnson indicated (off the record) that a slot had been found in the 2000 legislative calendar for a Bill. Messrs Bain and Roberts were pleased to note this.

Horizon

12. Mr Johnson said that he was well aware of the large step that the Post Office had ~~taking in stepping away from~~ *taken in signing with ICL before the back to back agreement with the Benefits Agency was in place. He would follow this up with his Ministerial colleagues after the summer break.* He also drew their attention to the forthcoming Performance and Innovation Unit study of the Post Office which he hoped would arrive at some helpful conclusions. Mr Johnson said that it was his intention to hold a meeting of the Horizon Working Group in September and that he would be in touch with dates.

Margins of Meeting

13. After Messrs Bain and Roberts had left, you discussed with Mr Johnson Dan Corry's recent note and whether or not Financial Consultants should be brought in to look at the Strategic Plan. Mr Johnson's view was that it was a sensible idea but that, as a courtesy, we should write now to Messrs Bain and Roberts letting them ~~now~~ know that this was our intention.

Simon Lancaster

PS/Mr Johnson