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Mr Alan Johnson MP
Minister for Competitiveness
DTI
1 Victoria Street
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Dear Alan

Thank you for the meeting in private where I raised two matters of concern for the Board as expressed by the Non Executive Directors. This follows on from our last Board meeting - but the matters are not new, although they are unresolved.

As discussed, I agreed to briefly set out the points raised:

1. The Board, especially the Non Executive Directors, including the Chairman, feel under-valued by Government and its officials.

In support of this statement I indicated that:

- While the Chairman and the Non Executive Directors were appointed by Government as the representatives of the shareholder, there is no sense in which the Government uses them as such.
- Recommendations of the Board and the Remuneration Committee are usually ignored.
- Judging by the extent of their contact and involvement with the Prime Minister downwards, we get the strong impression that the input which is valued, is from trade unions and the NFSP. This overt endorsement of these bodies - not mirrored by contact with the Board - makes it much harder for management to manage.

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2. Some parts of Government and its officials do not value the senior team at The Post Office, causing demotivation, and exploitation of committed, capable people.

In support of this statement the following points were made:

- Contracts are not treated seriously by officials or Ministers, as they have been allowed to expire in every case. This causes a strong feeling of resentment, and reinforces the view that people do not matter to this Government.
- Bonuses recommended by the Chairman and the Remuneration Committee are chiselled away to reduce fair payments to individuals.

Examples of this:

- The use of the unplanned impairment provision for Parcelforce to avoid paying bonuses. Furthermore, this is a point which we must urgently address for the current year. We must ensure that it is clear, well in advance, how changes in accounting practice and standards, as well as exceptional items, are to be treated for incentive purposes.
- Inability to accept the Chairman and the Remuneration Committee's judgement in relation to John Roberts' bonus to 31 October 1999 which remains unresolved and unpaid in total.
- Inability to agree to pay the bonus from 1 November 1999 to 31 March 2000.
- Once again a failure to agree bonus plans for the current year which is now 25% complete.
- Current salaries are unrealistically low, uncompetitive in a commercial environment and lower than in comparable situations such as BBC or BNF (see schedule attached). I remind you that we are currently recruiting a Finance Director with a salary range of £300,000-£350,000 (market rates) against the CEO's current salary of £205,000.

Looking at this evidence, it does seem to me that several paradoxes are apparent:

- The first paradox arising from these observations is that while The Post Office is supposedly moving to greater commercial freedom, it is still not being given freedom to motivate and manage its key people.

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- The second paradox is that while the Secretary of State appointed the Chairman and the Non Executive Directors as the representatives of the shareholder, the Government shows no inclination to use them in this way.
- The third paradox is that while this Government says it is committed to fairness at work, development of people, and fair rewards for results, the interface with The Post Office Board completely belies this.

Alan, I do believe that these issues need to be addressed with urgency. The present situation is frankly demotivating, unprofessional and unnecessary.

Kind regards

Yours sincerely

GRO

DR NEVILLE BAIN

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SCHEDULE OF EXTERNAL COMPARABLE SALARIES

Name	Current Salary £k	Outside assessment of commercial value £k	BBC equivalent £k	BNF equivalent £k
N C Bain Chairman	93	250	N/A	150*
A J Roberts CEO	205	400	330	350
Finance Director	159	300-350	180	200-250**
Executive Director	120-142	200-300	180-254	200
NEDs	16-18	30	17-25	20

* 2 days per week compares with PO Chairman 3 days per week.

** Job not yet filled.

MM