

In Strictest Confidence

POB(99)10th  
PO99/120 to 136

POST OFFICE BOARD

Minutes of the meeting held at 148 Old Street  
on 30 November 1999

Dr Neville Bain  
John Roberts  
Richard Close  
Jerry Cope

Mike Kinski  
John Lloyd  
Miles Templeman  
Rosemary Thorne  
Jonathan Evans  
Scott Childes  
Stephen Hill

Chairman  
Chief Executive  
Group Finance Director  
Group Managing Director Strategy & Business  
Development  
Non-Executive Member  
Non-Executive Member  
Non-Executive Member  
Non-Executive Member  
Secretary  
Notes  
Notes

Richard Dykes, Group Managing Director, Mails Services  
Stuart Sweetman, Group Managing Director, Customer and Banking Services.  
Kevin Williams, Group Managing Director, Distribution Services

Others attending: David Miller, Managing Director Post Office Network,  
for PO99/126  
Dom McKenna, Director Mergers & Acquisitions, and  
Rico Back, Managing Director European Parcels, for  
PO99/127 to 129

MINUTES OF  
PREVIOUS MEETING

PO99/120

The Board approved the minutes and separate record  
of proceedings of its meeting of 26 October 1999.

MATTERS ARISING  
POB(99)74

PO99/121

- (i) The Board noted the matters arising from its meeting held  
on 26 October 1999.

CHAIRMAN'S  
BUSINESS

PO99/122

- (i) The Chairman had a number of issues he wanted to  
cover, including : half year accounts, Government's  
acceptance of the Strategic Plan, and Executive  
Members' contracts and bonuses; the accounts would be  
discussed during the course of the meeting.
- (ii) Alan Johnson, The Post Office Minister, had written to the  
Chairman confirming, with some caveats, that the 1999-

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2004 Strategic Plan had been approved. The letter had just been received and needed to be considered in depth. However initial observations were that whilst it was good to have agreement to the Plan, including clearance of the target regime for 1999/2000 (a post-tax profit target of £350m, and a dividend payment of £175m with a floor payment of £140m), there were some areas of concern with Government apparently seeking further input and discussion on a number of strategic issues.

- (iii) The Minister had also proposed a critique of The Post Office by City analysts with expertise in the postal sector. The analysis would look at the organisation as if it were a listed company and whilst this could be helpful in exposing how Government intervention hampered development and day to day operations, it would be important to ensure that the work did not compound existing problems and divert management time and attention.
- (iv) A long awaited response to the Remuneration Committee's proposals on Executive Board Members' 1999-00 bonus scheme had now been received. Structurally the new scheme would be an improvement on its predecessor, but disappointingly included a disproportionate element of penalty. The Remuneration Committee would be approaching the DTI with suggested improvements for next year's scheme

**POST OFFICE  
UNAUDITED  
ACCOUNTS FOR THE  
HALF-YEAR TO  
SEPTEMBER 1999**

**PO99/123**

- (i) The half year accounts had been reviewed by the Board Audit Committee on 26 November at which time observations from Ernst & Young, The Post Office auditors, had also been received.
- (ii) In the half- year ending 26 September 1999, the Group made a loss on operating activities of £423m. The trading loss (after net interest receivable but before taxation) was £386m. These figures included the exceptional charge in respect of Horizon of £571m.  
  
noted further that
- (iii) The Post Office had not agreed with Ernst & Young's stated position with regard to the accounting treatment of the Horizon exceptional charge. The Audit Committee had concluded that The Post Office had adopted the correct

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technical accounting practice which was also in the best commercial interests of the organisation. A letter stating The Post Office position, supported by the Board, would be sent to Ernst & Young.

- (iv) The Audit Committee had noted three other issues which had affected the disappointing half year results:

**Irrelevant**

- (viii) Addressing issues around customer complaints was already underway and progress on this would be reported to the Board at its next meeting.
- (ix) Agreed that the half year accounts be published that day in the format set out in appendix 1.1 of the paper
- (x) Authorised Richard Close to sign the letter of representation

**Irrelevant**

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CHIEF EXECUTIVE'S  
REPORT (POB(99)75)

PO99/124

**Irrelevant**

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**Irrelevant**

FINANCIAL  
OVERVIEW

PO99/125

**Irrelevant**

- (iii) The Horizon exceptional charge would increase from £571m at the half year to £577m at the full year as a result of further impairment charges.

**Irrelevant**

- (v) Excluding Horizon the current Group profit forecast was £349m. It was recognised that in day to day operations it was more important to focus on operating profit as a key indicator of the strength of the business.

**Irrelevant**

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# Irrelevant

- (xv) Agreed that the following full year Group profit forecast be passed to DTI:
- £340m

DEFINING THE  
FUTURE SIZE AND  
STRUCTURE OF THE  
POST OFFICE  
NETWORK  
(POB(99)76)

PO99/126

- (i) The Board was not at this time being asked to agree to a definitive Counters network but rather endorse the principle and commercial rationale behind the defined size and structure, which could then be used to inform the likely debate with Government in the context of the study being conducted by the Performance and Innovation Unit (PIU).
- (ii) The Board had previously endorsed (PO99/50) the proposal to move away from the recognised definition of 'nationwide network' based on numbers of physical post offices, towards a two-fold formulation of accessibility whereby:
- 90% of the UK population lived within one mile

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- of post office counter services; and
- 99% of the UK population lived within five miles of post office counter services.

- (iii) In reviewing the size and structure it had been important also to consider the commercial sustainability of the network, as a consequence of funding Horizon and the loss of income through the move to ACT, and the viability of maintaining a network of offices with a diminishing customer base. A key consideration was whether an office was making a contribution over direct costs, and whether closure and migration of customers to another nearby outlet would provide a higher ongoing contribution to the benefit of the network as a whole.
- (iv) Based on this assessment, it was estimated that Counters had a commercially sustainable network of 8,000 offices. However, to ensure that the accessibility criteria were achieved a further 2,000 outlets were required. A network of 10,000 outlets would generate a profit improvement of between £70-90m p.a, although it could be expected for those benefits to reduce by up to £30m p.a as a result of clients seeking lower and more competitive prices.
- noted further that
- (v) Government recognised the need to address the problems associated with the network and had instigated the PIU review, due to report in the Spring. It was important that The Post Office had a clearly defined network strategy to inform the review. This would include the conclusion that for its commercial purposes, The Post Office needed a network of some 10,000 offices.
- (vi) Government clients already regarded the revenue Counters gained through contracts with them as a network 'subsidy' and it was therefore inevitable that if the cost of running the network reduced they would want to see some of this benefit reflected in their charges.
- (vii) The one-off cost of reducing the network by 8,000 outlets was estimated at around £200m. Were The Post Office to embark on such a closure programme, it was not certain that at the end of it a business that added value would remain. In addition it was unrealistic, given the political implications, that Government would agree to reductions on that scale. However this assessment of The Post Office's commercial network need would be an important starting position for discussions with Government about

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the need, and means of funding, a larger network.

- (viii) The roll-out of Horizon terminals was due to continue until 2001 and the business would look to optimise installation into commercially justified locations.
- (ix) The Post Office had accepted the Government's stance on Horizon and would not re-open the debate when putting forward its network proposals. However, the impact of ACT could not be ignored and would justifiably be highlighted.
- (x) Supported the proposals for determining the commercial network of offices.
- (xi) Agreed that a further debate, following the report of the PIU, would be required to determine what value the network would bring given the size and structure being proposed.

Action  
Stuart Sweetman

Return to the Board following the PIU study, with more developed proposals on how a commercially based network could be progressed.

**Irrelevant**

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**Irrelevant**

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# Irrelevant

ANY OTHER  
BUSINESS  
Meeting Dates

PO99/135

The Board noted that next year's meeting dates were being revised and that it was desirable that these dates be aligned to ensure that Members received the most recent available financial information. It was recognised that Non-Executive Members might not be able to attend every meeting.

DATE OF NEXT  
MEETING

PO99/136

The next meeting was scheduled for 11 January 2000, at 148 Old Street.