

In Strictest Confidence

**POB(99)4th
PO99/37 to 52**

POST OFFICE BOARD

**Minutes of the meeting held on 27 April 1999
at 148 Old Street**

Present

Dr Neville Bain	Chairman
John Roberts	Chief Executive
Richard Close	Managing Director Finance
Jerry Cope	Managing Director Strategy & Personnel
Mike Kinski	Non-Executive Member
Dr John Lloyd	Non-Executive Member
Miles Templeman	Non-Executive Member
Rosemary Thorne	Non-Executive Member
Scott Childes	Notes

Richard Dykes, Managing Director Royal Mail
 Stuart Sweetman, Managing Director Post Office Counters Limited
 Kevin Williams, Managing Director Parcelforce Worldwide

Others attending: Mick Linsell, Managing Director POSG and Malcolm Kitchener, Finance Director Royal Mail, for PO99/46
 Dick Wheelhouse, Lottery Director, for PO99/48
 Adam Novak, Director & General Manager Royal Mail National, for PO99/49

RICHARD ADAMS PO99/37

The Board noted that Richard Adams was recovering from a motor accident and asked that his colleagues' best wishes for a speedy recovery be forwarded in a letter from the Chairman.

MINUTES OF PREVIOUS MEETING PO99/38

The Board approved the minutes of proceedings from its meeting of 23 March 1999.

**MATTERS ARISING PO99/39
POB(99)13**

The Board noted the matters arising from the meeting of 23 March 1999.

**FINANCING PO99/40
POSTCAP**

**GUERNSEY
POB(99)30**

- (i) Postcap Guernsey Ltd had been established as a wholly



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owned subsidiary of The Post Office in 1995 to operate as a captive insurance company to underwrite selected Post Office risks. A recent review of deductibles had determined that the £1m carried by The Post Office no longer represented catastrophe level risk in the areas of crime, property and liability. It was therefore proposed that the level be raised to £5m, a move that would require re-capitalisation. Additionally, it was proposed that the authorised share capital be increased to £25m with £8m issued.

- (ii) Agreed and authorised establishing an authorised capital structure for Postcap Guernsey Ltd of £25m.
- (iii) Agreed that a further £6m be paid up, making a total paid up share capital of £8m, with any further increase being first agreed by the Board.

**POST
IMPLEMENTATION
REVIEW (PIRs)
POB(99)31x**

PO99/41

- (i) PIRs formed part of the approval, monitoring and control process for project investment and as such they were taken very seriously and used as a useful learning exercise.
- (ii) Whitbread operated a similar process although performance was tracked over time in order to establish if year on year performance was improving or deteriorating.

**APPOINTMENT OF
CHAIRMAN OF
SUBSCRIPTION
SERVICES LIMITED
POB(99)32x)**

PO99/42

- (i) Noted that Jerry Cope would resign from the Board of Subscription Services Limited with immediate effect.
- (ii) Agreed the appointment of Stuart Sweetman as an 'A' Director and Chairman of the Board of Subscription Services Limited, with immediate effect, but subject to formal confirmation from the Secretary of State.
- (iii) Noted that Brian Strange, Managing Director Subscription Services Limited, would resign from the Board at a date to be determined.
- (iv) Agreed that Paul Rich would be appointed as a Director and Managing Director of Subscription Services Limited with effect from Brian Strange's resignation.

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**CHAIRMAN'S
BUSINESS**

PO99/43

- (i) The Chairman had four key issues to raise:
 - Horizon;
 - New Zealand Post;
 - Board effectiveness; and
 - the underlying financial performance of the Businesses.
- (ii) The Chairman had visited New Zealand Post recently and had been impressed by the approach and attitude of the organisation. He had discussed some of the key learning points with John Roberts.
- (iii) A number of issues had been identified from the questionnaires on Board effectiveness and a summary of the key points, together with some additional material on PDV, Values, Goals, Commercial direction and matters reserved to the Board, would be circulated to Members. The issues would be discussed more fully at the June meeting.
- (iv) Whilst the year end financial results would be viewed as satisfactory, the underlying performance of the businesses was of concern and the reasons for this would need to be understood.
- (v) **(Secretary's note:** The remainder of this minute has been circulated to Members on a personal basis).

Action

Stuart Sweetman

Circulate a chronological brief which set out the key events and issues related to Horizon.

Secretary

Circulate the summary of information and questionnaire results together with information on matters reserved to the Board, our Values, PDV, Goals and Commercial Direction. Ensure a 30 minute slot on the next agenda.

**CHIEF EXECUTIVE'S
REPORT (POB(99)24**

PO99/44

- (i) CWU Presentation. The Chairman and Chief Executive had recently given a presentation to the CWU Postal Executive on the future direction of The Post Office. The presentation continued the development of an improved relationship with the union and had been well received. Encouragingly, the CWU were themselves keen to develop a collaborative relationship through which knee-jerk reactions to change could be avoided.
- (ii) Strategic Partnerships. Representatives from Fedex, La

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Poste (France), An Post (Ireland) and the Belgian Post Office had, or were keen to, discuss potential partnerships. The smaller postal administrations, such as An Post, recognised the need to develop a relationship with one of the major European Postal administrations and they would therefore be reviewing opportunities with the German, Dutch and UK administrations. The Board had been advised of the potential alliance with Fedex and La Poste in February (PO99/16). Following preliminary discussions it had become clear that Fedex were seeking a contractual relationship, something that The Post Office was not as keen to pursue.

- (iii) Obtaining access to an air based partner was an essential requirement for the long term development of The Post Office's international strategy and Fedex, who would require volume to support their network, would therefore be approached again with La Poste, to see if a way forward could be developed.
- (iv) Talks with UPS had also been held and further discussions were planned.
- (v) Quality of Service. Year end results confirmed that Parcelforce's Express streams had performed well with all Next Day services achieving target. Royal Mail's Second class traffic had also performed well achieving 98.6% against a target of 98.5%. Royal Mail's First class traffic stream had failed to reach its challenging target of 92.5%, outturning at 91.3%, slightly below that achieved the previous year. International performance was also disappointing and improvements were being sought. A new international charging system would take effect this year based on quality of service and it was therefore important for improvements to be made. Notwithstanding the disappointing First Class result, Royal Mail's customer satisfaction rating had actually increased.
- (vi) American Express. Royal Mail had recently been awarded a global Silver award for service from American Express. Royal Mail was to be congratulated on this achievement.

FINANCIAL OVERVIEW

PO99/45

- (i) Provisional full year results were:
 - Royal Mail £484m;
 - POCL £38m;
 - Parcelforce Worldwide £(25)m; and
 - SSL £3m
- (ii) The provisional full year Group profit result was £610m,

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compared with a budget of £601m and last year's outturn of £651m. The full year result had benefited from a pension adjustment of £63m and income of £35m from the sale of KEB and Quadrant.

- (iii) Although the 1997-98 profit figure was higher than that provisionally calculated for 1998-99, it had been distorted by a Royal Mail price increase.
- (iv) For Parcelforce it was significant that a number of its competitors were already signalling profit warnings.
- (v) The EFL target of £310m had been achieved with a rollover of up to £32m possible. Achievement had been assisted through the advanced receipt of income from Girobank and £88m from key Royal Mail customers who had brought forward cash settlements for contracts.
- (vi) With the exception of Parcelforce's profit target, all other Government targets had been achieved.
- (vii) A new measure which compared the Businesses' results, expressed as a return on shareholder funds, earnings growth and PBIT margin, to those of the best Postal administrations world-wide had been produced. The results showed that improvements in all three areas were necessary.
- (viii) Compared with the 1997-98 result, Royal Mail's expenditure on pay and inflation had increased by £140m. This could lay the business open to accusations of having 'bought' industrial relations peace.
- (ix) Horizon remained the only key audit issue with a possible need to reverse a provision of £14m.
- (x) Capital Expenditure had outturned just under budget with the alignment of forecast and actual spend greatly improved compared with previous years.
- (xi) The full year profit target for 1999-00 was £525m.
- (xii) A review of the Business budgets for 1999-00 showed that Royal Mail's risks had increased to £36m and Parcelforce's had increased to £5m. POEC would be reviewing recovery plans at its May meeting.

Noted further that

- (xiii) Royal Mail had seen early signs that the control of costs was beginning to improve. However, management of

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change would have to be carefully monitored to ensure that attention was not diverted away from the control of costs. Risks existed predominately around revenue.

- (xiv) Whilst Parcelforce's UK revenue was performing well the international streams were very disappointing. Debt recovery was progressing well and the full year loss of £(25)m incorporated £2m of bad debt. Overhead costs had for no clear reason worsened and this was being investigated.
- (xv) SSL had performed strongly at the finish of 1998-99 and had made an encouraging start to the new financial year.
- (xvi) BT had agreed a new five year contract with POCL and further opportunities with Lloyds/TSB were to be explored. The DVLA had also agreed a new contract worth £53m.
- (xvii) Royal Mail had received unjustifiable criticism from Legal & General over an alleged delay of time critical year end postings. Although the allegation could not be substantiated the public argument, led by Legal & General, continued. Ending the dispute was important and writing privately to Legal & General's Chairman, Sir Christopher Harding would help in this regard.

Action

Richard Dykes

Send a 'private' letter to Sir Christopher Harding, Chairman of Legal & General, which sought to resolve the public disagreement over alleged delays to significant volumes of Legal & General's year end postings.

**COST REDUCTION
APPROACHES
(POB(99)25)**

PO99/46

- (i) From 2001/02, savings of £484m were projected to be realised from major initiatives. These initiatives included the Competitive Overhead Strategic Structure Programme (COSSP) and the Finance Excellence Programme (FEP), both of which were already well into deployment and had already resulted in reduced staff numbers.
- (ii) Support services currently cost £622m per annum. They were located within stand-alone business units under the umbrella of the Post Office Services Group (POSG). Support services were defined as non-core activities which could otherwise be provided through external suppliers.
- (iii) Under the Shaping for Competitive Success project POSG services would be tested against the upper quartile of externally provided services in their respective markets.

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SCS would result in the establishment of Post Office Consulting, comprising the internal consultants previously located within Royal Mail and POCL. Cleaning services would transfer into RoMEC, and some Financial Accounting/personnel employees would transfer into a Transaction Services unit and a number of smaller, as yet unscoped changes, such as the transfer of Parcelforce workshops into Vehicles Services, would occur. Together these changes would result in POSG employing nearly 16,000 people and carrying costs approaching £900m.

noted further that

- (iv) Work was underway to differentiate between those employees who were fulfilling a genuine consultancy role and those that were engaged in service activities. It was estimated that only half of the 1400 employed in consultancy provided actual consultancy services.
- (v) Considerable attention was being focused on 'Knowledge Management' although it was recognised that the application of these principles was not always as good as might be expected. The personnel issues around better deployment and utilisation of resource centrally and in the line was being considered.
- (vi) The Post Office employed its own cleaners to avoid a VAT cost penalty.
- (vii) Whilst in comparison to external organisations the number of staff engaged in Training & Development appeared high, it was in fact low as a ratio of total spend. Research employees were engaged in highly specific areas such as encryption, stamps and ink.
- (viii) Thanked Malcolm Kitchener and Mick Linsell for their helpful and informative input.

DEPLOYMENT OF
EUROPEAN
PARCELS
STRATEGY
(POB(99)26)

PO99/47

(Secretary's note: The minute of this discussion has been circulated to Members on a personal basis)

THE NATIONAL
LOTTERY PROJECT
(POB(99)27)

PO99/48

(Secretary's note: The minute of this discussion has been circulated to Members on a personal basis).

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PROGRAMMES 1999-
2001 (POB(99)28)****PO99/49**

- (i) The Post Office produced 5.3bn stamps annually of which the majority were low value definitives and those sold in retail books. The total value of the stamp market to Royal Mail was £350m with income of £84m and a contribution of £54m
- (ii) There were estimated to be 3m stamp collectors in the UK, half of whom were regular collectors although their numbers were decreasing.
- (iii) In terms of products 60%, or income of £50m, was generated through the sale of special stamps. Of the different sales channels open to the public ordinary sales across post office counters provided by far the greatest volume of revenue with 70% or £56m being generated.
- (iv) Marketing of philatelic products was moving away from TV advertising to more mail drops, promotions and exhibitions.
- (v) Harnessing the opportunity provided through the Millennium, Royal Mail's philatelic strategy was to increase revenue from existing collectors, attract new collectors, particularly the young, change the image of stamp collecting and focus purely on core philatelic products. Financially, the plan sought to increase income during the period of the Millennium, peaking at £111m in 1999/00, and seeking a significant step change by 2001/02 with income increased to £95m.
- (vi) A detailed process for the production and marketing of philatelic products was undertaken and the Stamp Advisory Committee (SAC), which had internal and external representation, played an important role in the selection of stamp subjects and their design.
- (vii) The Millennium stamp programme ran from 1999 to 2001 with each year focused on one theme:
 - the past;
 - the present; and
 - the future.

To date the programme was ahead of forecast with 30,000 new customers seen at the British Philatelic Bureau based in Edinburgh. Typically these customers were also buying stamps over a two year period rather than for just one year. Awareness of the Millennium

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programme was high.

- (viii) For the year 2000 the theme of 'Time' would be continued but be set in the context of the 'Present'. Twelve sets of four stamps would be issued with unusually 48 British photographers being commissioned rather than the normal artistic representation. In addition a First Class Millennium definitive would be issued as would a stamp celebrating the birthday of the Queen Mother.
- (ix) In the final year of the Millennium programme it was intended to continue with the monthly issue of four sets of stamps with three compulsory subjects:
 - the final Millennium stamp issue;
 - PostEurop; and
 - Christmas trees, celebrating the bi-centenary of decorating trees in Britain.
 Other categories for the year 2001 were:
 - family pets;
 - public transport;
 - British weather;
 - submarines;
 - cartography;
 - Nobel prize winners;
 - British writers;
 - puppets; and
 - fashion hats.

Noted further that

- (x) The issue of re-branding the Second Class product had still to be addressed.
- (xi) Involving schools was undertaken through a separate youth programme.
- (xii) Maintaining the policy of issuing twelve sets of four stamps would need to be reviewed before being progressed.
- (xiii) The stamp designs were acknowledged as being exceptional and the work of the design team outstanding.
- (xiv) Thanked Adam Novak for his informative presentation.

Action
Richard Dykes

Review the success of issuing twelve sets per year before deciding if this approach should continue in 2001.

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**DEFINING &
MEASURING THE
NATIONWIDE
NETWORK OF POST
OFFICES
(POB(99)28a)**

PO99/50

- (i) There was no statutory obligation for The Post Office to provide a "nationwide network" and certainly no objective definition of "nationwide" existed, although maintaining the number of post offices had tended to stand broadly as a proxy.
- (ii) The impending establishment of a Regulator had heightened the need for greater clarity on how in future a "nationwide network" might be defined.
- (iii) The Post Office had worked constructively with the DTI on a suitable definition which had as its measure the percentage of the UK population living within a certain distance of a post office. The following had been agreed:
 - for 90% of the UK population to live no further than 1 mile of post office counter services;
 - for 99% of the UK population to live no further than 5 miles of post office counter services.
- (iv) At present 94.04% of people lived within a mile radius of a post office and 99.9% within 5 miles. Under the agreed measure the current network (18,774) could reduce to 12,500.
- (v) POCL believed that the new measure could be supported operationally and publicly.

Noted further that

- (vi) The change would enable POCL to introduce a degree of flexibility into its fixed costs but it was recognised that in public terms it would need very carefully management.
- (vii) Where sub-post offices were closed a compensation payment equivalent to two years remuneration was payable.
- (viii) It was unclear why the DTI had wanted to include a definition of the network within the White Paper; following discussions with The Post Office it was now possible that it could be excluded.
- (ix) It was important to ensure that the approach taken to rural and town locations was in line with the stance taken by other parts of the organisation.

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- (x) Endorsed the approach POCL was taking on the definition of the Nationwide Network.

Action
Stuart Sweetman

Circulate a copy of the graph used to help explain the proposed definition of the Nationwide Network.

POCL BUSINESS SERVICE MANAGEMENT/SSL CONTACT CENTRE (POB(99)29)

PO99/51

- (i) The paper sought agreement to the expansion of the existing POCL regional helpline at Leeds, as an interim Network Business Support Centre (NBSC), to be managed by Subscription Services Limited (SSL). It further sought the leasehold acquisition of a developer constructed and fitted-out building in the Dearne Valley, South Yorkshire as the fourth Contact Centre for SSL. This centre would ultimately act as the main NBSC supporting the roll-out of Horizon. Development of a technical solution ('tool-set') was also required to support the Horizon project.

noted further that

- (ii) Before a final decision on Horizon was known it would be important to ensure that no unnecessary expenditure was incurred. It should also not be assumed that should Horizon fail work from other areas could be used to offset the loss.
- (iii) In future the Board should be advised where commitments had already been entered into.

Action
John Roberts/Richard Close/Stuart Sweetman

- (iv) Review planned expenditure on the project to ensure that further commitment based on the Horizon project was avoided.

Richard Close

- (v) Future papers to highlight what commitments have already been made prior to the Board considering a proposal.

DATE OF NEXT MEETING

PO99/52

The next meeting was scheduled for 8 June 1999.