

In Strictest Confidence

POB(97)6th  
PO97/65 to 75

Copy No

POST OFFICE BOARD

Minutes of the meeting held on  
10 June 1997, at Post Office Headquarters, London

Present

Sir Michael Heron	Chairman
Mr P Allen	
Mr R C Close	Managing Director Finance
Mr J E Cope	Managing Director Strategy and Personnel
Dr D Grieves	
Sir Christopher Harding	
Mr A J Roberts	Chief Executive
Mr R G Osmond	Secretary
Mr S Childes	Notes

Also Present

Mr R Dykes, Managing Director Royal Mail, Mr K Williams, Managing Director Parcelforce, for item PO97/68  
 Mr S Sweetman, Managing Director POCL for PO97/68 and PO97/69  
 Mr P Rich, Development Director, POCL for PO97/69

**MINUTES OF  
PREVIOUS MEETING**

**PO97/65**

The Board APPROVED the minutes and separate record of proceedings of its meeting of 13 May 1997

**MATTERS ARISING  
POB(97)42**

**PO97/66**

The Board noted the matters arising from the meeting of 13 May 1997

**CHIEF EXECUTIVE'S  
REPORT (POB(97)43)**

**PO97/67**

The Board noted Mr Roberts' report and the presentation by Mr Close the main points from which were that

- (i) the results to be published in the 1996/97 Report & Accounts would show Group profit at £577m, a record result driven by Royal Mail's exceptional profit of £518m;
- (ii) with the exception of Parcelforce's budgeted loss of £15m, targets for 1997-98 had now been cleared with Government, with Royal Mail set to achieve a profit of

**GRO**

**In Strictest Confidence**

£526m and Counters £33m. Group profit, including Parcelforce's £(15)m, was budgeted at £616m;

- (iii) in April all three businesses outturned ahead of budget with Counters' £2.3m over achievement the result of variations in non-staff calendarisation which the business was reviewing;
- (iv) traffic growth in April was 2% below budget with shortfalls in Streamline and International. Streamline was known to be a volatile traffic stream in which marked fluctuations had previously been seen. More worrying was the performance of International traffic, with growth in April outturning at 0.9% compared with a budget of 7.7%. A full review of International volume and quality of service performance had been requested by POEC and the Board would be updated on the outcome in July;
- (v) Counters risks and opportunities for the year were balanced at £14m with risks associated with the Horizon programme and the cessation of Crown office conversions, which would result in lost franchisee fee income, additional maintenance costs for offices not now being converted and lost savings, offset by EVR costs not now required. Of the £14m identified as management initiative opportunities, half was certain to be achieved;
- (vi) VAT remained an issue for Counters with the Tribunal on Subpostmasters pay still to announce its ruling. Additionally, Pathway had been granted authority to charge VAT for the Horizon project. If Counters could not charge this back to the Benefits Agency, a £7m charge would result;
- (vii) Parcelforce's £2.3m loss in April was better than that achieved in April 1996 and £0.3m better than budget. Income at £41.1m was slightly down against budget, with expenditure £0.4m ahead of plan mainly as a result of central cost savings. Operationally costs were higher than budget;
- (viii) calendarisation of Parcelforce's full year budget showed that performance was due to continue its downward trend before improving in August. This mirrored the trends, seen in 1994-95 and 1995-96 albeit at a lower level;
- (ix) as with Royal Mail, International income in Parcelforce was below budget, and given that this was one of the

**In Strictest Confidence**

business's high revenue streams it was a worrying aspect that would need to be closely monitored;

- (x) a good EFL result of £285m had been achieved  
  
noted in discussion that
- (xi) calendarisation of Parcelforce's full year result was not without risk, particularly as the April result continued the downward trend seen in 1996/97. The key issue remained when and how this decline would be stopped and to this end it was important that Parcelforce's Managing Director had been able to assure the Chief Executive that the regional General Managers were fully associated with, and committed to achieving, the stretch income and expenditure targets discussed at the May Board (PO97/57)  
  
noted further Mr Roberts' report and in particular that
- (xii) the Chairman, Chief Executive and Mr Cope had recently met Ian McCartney, Minister of State, and his full team of officials, presenting to them a number of the key issues affecting the Post Office, including EFL, International opportunities, Parcelforce, Industrial Relations and Crown Office conversions  
  
noted in discussion that
- (xiii) conversions apart, the presentation had been well received and the Minister had intimated that he would welcome an increase in The Post Office's commercial freedoms. He had also formally advised The Post Office that Government was no longer seeking to sell Parcelforce. In concluding, the Minister had agreed to write formally to the Chairman setting out the issues that would be covered within the Post Office review with an indication of the likely timescale. However, it was likely that both Parcelforce and conversions would form part of the review, with targetry being excluded;
- (xiv) although nothing formal had emerged in respect of Counters conversions the underlying impression was that Mr McCartney was in principle opposed to franchising and it was therefore considered important that in responding to the Minister's letter that The Post Office stressed that consumer interests were its main priority and could demonstrate the customer benefits of its conversion programme. It was also important for

### **In Strictest Confidence**

Government to appreciate fully the financial implications for Counters. To compensate for lost savings and franchisee fee income POCL would need to generate £300m of new business at a 10% margin, an unlikely scenario

noted further that

- (xv) an extremely negative CWU conference had ended with activists speaking out against the Parcelforce hub and again seeking to introduce the Streaming of mail. The two JWPs were due to conclude their work on 16 June with discussions on Flexibility having progressed well, although it was impossible to judge how this would be reflected in negotiating an agreement. The ACAS JWP Chairmen still had an important role to play in concluding a successful deal and the Chief Executive would seek to ensure their committed participation;
- (xvi) Royal Mail had announced its mails strategy for Liverpool and North Wales & North West and to date offices had been operating as normal. The local Liverpool press had covered the story but national coverage had been very limited;
- (xvii) Royal Mail had successfully brokered a deal with the CMA on the Agenda for Leadership. A ballot of members linked to a pay offer of 2.9% would now take place;
- (xviii) the moratorium on delivery revisions which had been in place whilst the JWPs were progressing was now to be lifted;
- (xix) Government had agreed that the partial sale of Quadrant, which would place 49% of the company in private ownership could proceed. An advertisement announcing the sale would be published on 16 June;
- (xx) the Chief Executive, together with internal and external members of the Genesis project team, were due to meet Mr David Clark MP, Minister in the Office of Public Service, on 11 June to discuss Government Direct and highlight the Post Office's potential in this area;
- (xxi) the IMPs project board had now authorised the release of equipment and 15 machines had now been installed in Mail Centres across the country. Royal Mail had set a target of 50 to be operational by the year end;

**In Strictest Confidence**

- (xxii) quality remained of concern within Royal Mail with remedial work now concentrating on basic core processes. Work would also focus on specific poor performing locations whose negative first class monthly impact on national figures could be as high as 2%

AGREED that the following profit/loss forecasts be released to the DTI: Royal Mail £526m, Parcelforce £(15)m and POCL £33m

POST OFFICE  
CORPORATE PLAN  
& IFR (POB(97)44)

**PO97/68**

The Board noted Mr Roberts' introduction, Mr Cope's report and presentation, the main points from which were that

- (i) this year's Plan had been produced following the agreed Strategy Development process and was built on the individually agreed Business Plans, together with a Group overview;
- (ii) the Plan had been written in such a way as to form an agenda for the new Government and thus concentrated on the key issues The Post Office wished the Government to focus on, rather than detailed specific strategies. A short executive summary would be included in the version forwarded to Ministers, and circulated to Members when finalised;
- (iii) in particular the Plan focused upon commercial freedom, Parcelforce viability, including the need to re-structure the balance sheet, Crown Office conversions, and, for the first time, an acceptance, with caveats on uniform price and the universal service obligation, of the phased introduction of earlier market liberalisation;
- (iv) the Plan did not assume at this stage any benefits from commercial freedom or include the costs of any structural reorganisation. It did however, highlight the four key strategic agenda programmes and in addition incorporated the major business programmes;
- (v) the Plan detailed the importance of continued growth, with Royal Mail's performance underpinned by an assumed 20% increase in traffic over 5 years, combined with RUC reduction, manpower reductions flowing from the introduction of the Employee together with a price reduction in real terms. For Parcelforce, performance

### In Strictest Confidence

was underpinned by a significant targetted increase in weighted volume offset by the effects of competitive price pressure. Counters' volume was also planned to increase through an increase in Bill payments transactions and implementation of its retail strategy. The impact of technology had not been taken into account in Counters assumptions;

- (vi) all three businesses planned significant quality improvements;
  - (vii) the Plan met all Government targets except Parcelforce's profitability, which had still to be agreed. The benefits of the Parcelforce hub would not impact positively until the turn of the Century;
  - (viii) the Plan assumed that capital expenditure (capex) would average £450m per annum with development capital averaging £75m. Given that actual expenditure over the last five years had averaged £350m and that no firm expenditure plans existed for development capex, The Post Office was vulnerable to the Treasury seeking to increase the EFL by £175m, the sum of the gap between actual and planned capex together with development capex and should marshal arguments against this eventuality;
  - (ix) in conclusion, the Plan was considered robust against a significant level of financial risk, provided a more coherent presentation of the strategic agenda, highlighted the important viability issues for Parcelforce and identified commercial freedom and employee relations opportunities
- noted in discussion that
- (x) although the introduction of IMP technology would reduce manpower within the processing function it would not alter delivery staffing levels. This underlined the importance of securing an agreement on the JWPs which would enable manpower improvements to be made in this area;
  - (xi) some Members were concerned that without the benefit of interest, Counters' profitability remained relatively flat over the plan period. However, Counters only Government target was to achieve a set Return on Turnover, with profit a secondary consideration. It was therefore able to seek real improvements in profitability only from the development of new, non-government

### **In Strictest Confidence**

based products, and this was its planned strategy over the period of the Plan. In other Government based products it sought to maximise performance as opposed to profitability. Explicit reference to this strategy would be considered for the final Plan document;

- (xii) suspension of the conversion programme would adversely effect Counters' ability to reduce manpower; however, it was considered prudent not to highlight this within the Plan as this Government's attitude to employment levels might differ from that of the previous administration;
- (xiii) Counters' involvement in the financial services market was of concern to the Chairman who wondered whether it restricted customers' choice and left Counters open to claims of exclusivity from competitors within the insurance market whose products were not available from POCL outlets. Against this view, Counters believed it was providing a useful service which customers had demonstrated was popular. It also provided an alternative method of entry into the insurance market, thereby complying with the Green paper requirement that Counters had to 'extend market choice'. Nevertheless, it was important for Counters to be able to defend its position should this prove necessary. Counters Managing Director would consider this and provide the Chairman with a briefing note via the Chief Executive;
- (xiv) the positive wording of paragraph 3, in section 3.5 was potentially misleading, giving the impression that an alternative strategy already existed and could be deployed without delay. The wording would be reviewed and consideration given to incorporating a statement on the action the union needed to take in making a positive contribution to employee relations;
- (xv) paragraph 2.2.1 highlighted The Post Office's activities and aspirations with regard to joint ventures, acquisitions and the creation of subsidiary companies, but did not cover disposals, other than a brief reference in paragraph 3.11. Specific reference to this would be considered. The wording and location of references to VAT in paragraph 3.11 would also be reviewed;
- (xvi) some Members felt it important to consider a more aggressive presentation of commercial freedom issues

**In Strictest Confidence**

and in particular a clearer indication of where The Post Office would want to be in five years time. The need to refer more directly to compulsory redundancies should also be reconsidered as should the somewhat optimistic references to manpower reductions in paragraph 4.3.1;

- (xvii) given the earlier Board discussion on customer and consumer interests (PO97/67) it was important to incorporate, wherever relevant, references to customers and their expectations. There was no consistent approach in referring to 'staff' and 'employees' and to avoid any confusion references should be standardised;
- (xviii) the Plan included a paragraph on The Post Office's freedom to borrow and in support of this it might be worthwhile preparing information on alternative models, such as that used by BNFL;
- (xix) in short the Plan maintained or exceeded the high standards of previous documents

AGREED

- (xx) subject to the points of detail raised in discussions the general direction of the 1997-2002 Plan, and the financial performance projections it contained, and that the Plan and IFR, amended as necessary, should be put to Government

**HORIZON UPDATE****PO97/69**

The Board noted Mr Roberts' introduction and the presentation by Mr Sweetman, the main points from which were that

- (i) since the previous Board presentation in January (PO97/9) contracts had been signed with BA and Pathway. Development delays within Pathway had made it necessary to produce a new programme implementation plan which had consequently delayed acceptance of system roll-out until January 1998 with the target of equipping 5000 offices delayed until March 1998. Negotiating the new Plan had at times been tense with difficult commercial issues for both BA and Pathway, nevertheless, these had been successfully concluded and relationships were reasonably sound as a result;

### In Strictest Confidence

- (ii) since the re-plan the original 10 trial offices had been equipped and were working well, with three further releases tested and accepted. 124 offices were now operating automation equipment, carrying out 30,000 transactions each week;
- (iii) a number of network issues had emerged including that of premises suitability with between 10-20% of offices now assessed as requiring substantial alteration to comply with Health and Safety legislation. It was important for POCL to ensure that operational planning at a local level improved and that the process for migrating existing systems was robust;
- (iv) notwithstanding the earlier delay and re-plan, Pathway had recently signalled that a further delay would occur, making yet another revision necessary. Acceptance of the programme was therefore not now likely before March 1998 with a maximum of 2,000 offices installed by the end of 1997/98. In total the programme was now 9 months behind schedule, largely as a result of software problems on the part of Pathway;
- (v) financially the NPV remained unchanged and still justified POCL's continued involvement. However, risks surrounding regional costs to support the programme and the loss of new business as a consequence of the delays had emerged, totalling £49m;
- (vi) the change of Government meant DSS were having to review the number of offices and cards likely to be covered by the programme. The impact on Counters' other clients and other operational systems remained to be assessed as did Counters' legal position with regard to recovering costs from Pathway as a consequence of the delays  
  
noted in discussion that
- (vii) the Horizon project was crucial for the business and it had therefore been necessary to restrict severely the number of other projects in which the business might otherwise have engaged. Resourcing the project had also emerged as a major issue with between 350-400 employees required to act as a dedicated team for dealing with issues such as training and implementation etc;

**In Strictest Confidence**

- (viii) Counters was committed to installing equipment across the entire network and in rural offices the prospect of automation was likely to result in some early retirements. In an effort to avoid this the experiences of Subpostmasters in trial offices would be shared nationally;
- (ix) although unwelcome, further delays with the programme were almost inevitable. The issue of obtaining compensation through the courts would not be considered at this stage in the interests of maintaining a good working relationship, considered although it was recognised that the Benefits Agency might take a contrary view

Thanked Mr Sweetman for his informative presentation

**KING EDWARD  
BUILDING****PO97/70**

The Board recalled its previous discussion (P097/58) and noted that the Board of Merill Lynch had now met and agreed the sale of KEB

**PREPARING FOR  
EUROPEAN  
MONETARY UNION  
(POB(97)45x)****PO97/71**

The Board noted Mr Close's report

**PROGRESS AGAINST  
1996-2001 CORPORATE  
PLAN (POB(97)46x)****PO97/72**

The Board noted Mr Cope's report and in particular that

- (i) Members felt that for the future it would be useful to replace the existing format with one that provided a balanced review of were the Businesses where against where they had expected to be rather than simply identifying areas of progress

AGREED that

- (ii) Mr Cope would ensure that future reports reflected the changes the Board required and that it would be taken as an above the line item in future years

**POFL PERFORMANCE  
UPDATE (POB(97)47x)****PO97/73**

The Board noted Mr Roberts' report

**In Strictest Confidence**

**POST OFFICE  
ACCOUNTS  
(POB(97)48x)**

**PO97/74**

The Board noted Mr Close's report

**DATE OF NEXT  
MEETING**

**PO97/75**

The Board noted that its next meeting was scheduled for 8 July and would conclude the Board's awayday at South Lodge Hotel