

In Strictest Confidence

**POB(98)4th
PO98/33 to 49**

Copy No

POST OFFICE BOARD

**Minutes of the meeting held on 14 April 1998
at 148 Old Street, London**

Present

Dr Neville Bain	Chairman
Mr Peter Allen	
Mr Richard Close	Managing Director Finance
Mr Jerry Cope	Managing Director Strategy & Personnel
Dr David Grieves	
Sir Christopher Harding	
Mr John Roberts	Chief Executive
Mr Richard Adams	Secretary
Mrs Nicky Jayson	Notes

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

Mr Jim Cotton- Betteridge, Strategic Marketing Director, Royal Mail for POB98/24
 Mr John Dunlop, Director & General Manager, Royal Mail International for POB98/25
 and POB98/26
 Mr Dave Miller, Director Horizon Programme, Post Office Counters Limited, for
 PO98/27

**MINUTES OF
PREVIOUS MEETING**

PO98/33

The Board approved the minutes of its meeting of 10 March 1998.

DR NEVILLE BAIN

PO98/34

The Secretary reported that Dr Neville Bain had been appointed Chairman of The Post Office with effect from 16 March 1998.

NICKY JAYSON

PO98/35

The Board also welcomed Nicky Jayson who had been appointed Head of Secretariat on a temporary basis.

**MATTERS ARISING
POB(98)22**

PO98/36

The Board noted the matters arising from the meeting of 10 March 1998.

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CHAIRMAN'S BUSINESS

PO98/37

The Chairman outlined his personal agenda for action within three and twelve months and described the business culture which he wished to promote:

- a focus on added value for all managers
- much more emphasis on action than on form leading to faster decision taking and greater personal accountability
- support for training and development initiatives, recognition that people at all levels were important
- a new era of pragmatic realism with Unions through top level understanding and dealing with trouble spots

ACTION

Chairman

- (a) The Chairman proposed to hold occasional meetings with the non-executive Members and the Chief Executive where issues could be discussed in greater detail and depth than was possible at Board meetings.

Secretary

- (b) In future, Board papers and minutes would be more concise and action orientated. Board papers would have a facing page in a standard format setting out the essentials.

Executive Members
and MDs

- (c) Copies of the Chairman's agenda to be circulated to members of Business Executive Committees and Board Members' Direct Reports on a personal basis.

CHIEF EXECUTIVE'S REPORT JOHN ROBERTS (POB(98)23)

PO98/38

- (i) Financial Performance. The full year financial forecasts were still on track to beat the Royal Mail target, achieve the POCL target and hopefully to achieve the Parcelforce target. But targets were not being met in the manner forecasted.

ACTION

MDs and Richard Close

To review the reasons for misforecasting.

- (ii) Government Review. The Government had announced that The Post Office would remain in the public sector, but the structural options under review included a 49% share sale.

ACTION

John Roberts and
Jerry Cope

- (a) The Board to review at the May meeting its position on the options now under review.

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Chairman and
John Roberts

- (b) To consider interim freedoms to press for.
- (iii) Liverpool. The Union nationally had accepted that Warrington was a better option than Speke for the new mail centre and had accepted in negotiation the proposal to retain some work at Liverpool if performance guarantees were obtained. The strike ballot had been withdrawn and management had made it clear that the proposal would be withdrawn if there were any further strike action. Meeting dates had been offered, but not yet taken up, by local MPs.
- (iv) Willesden. A two day unofficial strike over a discipline case at the Princess Royal Distribution Centre (PRDC) had spread to other offices in London. Negotiations with the Union nationally on a new conduct code had now been completed and a ballot was currently taking place. The new code should be very helpful in these circumstances but the situation at Willesden was now judged to be intolerable and positive action was necessary.

ACTION
Richard Dykes

To catalogue all the problems at PRDC since its opening, and to determine appropriate action with John Roberts.

- (v) Quadrant. The joint venture transaction had been completed successfully. No guarantee had been offered against compulsory redundancies but surplus administration staff would be absorbed back into the business.
- (vi) Coventry. The legal opposition to the Parcelforce Coventry Hubs had been overcome and planning permission granted.
- (vii) RelayOne. A new electronic mail service had been introduced in partnership with Microsoft and had received a good press.
- (viii) POCL pay. The 1998 pay round would not be easy, particularly with the NFSP, in view of falling transaction volumes.

The Board agreed an increase of x%.

FINANCIAL OVERVIEW
RICHARD CLOSE

PO98/39

- (i) Cumulative profit to February now stood at:
 - Royal Mail £544m
 - POCL £58m

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- Parcelforce (£12m)
 - SSL £2.6m
- (ii) The group results for 1997/98 would show a substantial record profit and capital expenditure would also be the highest ever. The EFL underlying performance was £353m. A £15m prepayment would allow £25m surplus to rollover.
- (iii) The Royal Mail full year forecast was £547m, £7m more than that forecast in January, due to the decision taken against making a £25m payment to employees, the delayed REIMS agreement and lower income. A £15m provision would be made for EVR (subject to final audit confirmation).
- (iv) The Parcelforce full year target of a £15m loss now appeared attainable; consequently the 1998-99 budget would need to be reviewed by the Board.
- (v) Counters' full year forecast had been held at £33m. The £17m provision for Horizon had now been settled with the auditors.
- (vi) SSL's £4.5m forecast against a budget of £9m was disappointing due mainly to a shortfall in planned telebusiness income.
- (vii) The Quadrant joint venture transaction had generated £23m with a £21m profit. It would be accounted for in the first month of the 1998-99 financial year.
- (viii) The Government's March budget would increase National Insurance Employer's contribution by £2m; the review of Group VAT rules which had been signalled could, in a worst case, result in up to £60m higher VAT costs.

ACTION
Richard Close

It was agreed that Richard Close would release to the DTI forecast profit figures of £540m for Royal Mail, (£20m) for Parcelforce and £30m for POCL, at the same time signalling that there were some upsides to these forecasts.

**ROYAL MAIL MARKET
DEVELOPMENT
RICHARD DYKES AND
JIM COTTON-BETTERIDGE
(POB(98)24)**

PO98/40

- (i) The level of volume growth since 1980 had been unprecedented and was forecast to continue but not to accelerate. The 5 year growth forecast was 20%, of which 90% would be from core services, 3% from

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ACTION
Richard Dykes

developing existing markets and 7% from new markets.

To re-base the long term growth graph using a log scale.

- (ii) Competition could develop in a number of forms:
 - low cost operators offering low prices and high reliability, but delivery restricted to perhaps once a week
 - city centre delivery only, offering high quality and low price
 - a PTT making a large investment in the UK and incurring significant initial losses
 - one player acquiring and consolidating a number of mailing houses
 - electronic substitution
- (iii) Core business would become increasingly vulnerable. More work was required on the potential effects of competition. Royal Mail would need to consider an acquisition strategy for vertical integration and to consider new ways of operating new services like city centre deliveries. Work was being carried out on developing this concept.
- (iv) Competition issues would be discussed in connection with the Corporate Plan at the June Board meeting and wider organisation issues at the July Awayday.
- (v) Royal Mail planned to spend an additional £130m on advertising over the next five years.
- (vi) Given the size of the commercial customer base, there was a case for increasing the number of 140 Account Managers in Royal Mail significantly.

ACTION
Richard Dykes

To co-ordinate production of a short brief for further discussion with the Chairman indicating the priorities within the programme and the cost and benefits of moving more rapidly to account marketing.

PROJECT GLORIA
JERRY COPE
(POB(98)25)

PO98/41

- (i) This acquisition would fully support Royal Mail's strategic intent and represented much the best opportunity to develop the North American market
- (ii) A phased payment would help to retain the existing management team which would be critical to success.
- (iii) The company should be run quite separately from the main UK business.

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ACTION
Jerry Cope

To press the DTI very hard to agree the deal.

The Board agreed a maximum PV of \$35m for the acquisition and that the Chairman, John Roberts, Richard Dykes and Richard Close would agree the detail.

**PROJECT VALERIE
JERRY COPE
(POB(98)26)**

PO98/42

- (i) The proposal provided Royal Mail with the opportunity to access a low cost delivery system for mail into the Netherlands (outside KPN's monopoly) for both international and domestic mail.

ACTION
Jerry Cope

To seek DTI approval and continue negotiations with Valerie and Valerie's parent to completion.

The Board agreed that authority would be devolved to Mr Roberts and Mr Close to authorise the deal.

**BA/POCL AUTOMATION
(HORIZON)
STUART SWEETMAN (i)
(POB(98)27)**

PO98/43

- (i) Whilst the NPV of the project for POCL at this point had changed little, the financial position of the other partners had worsened substantially to the point where ICL/Pathway wished to renegotiate terms and DSS/BA were thought to favour termination.
- (ii) A review Board with independent external advice was now a possibility to provide input to a political decision on the project's future.
- (iii) The project remained central to POCL's strategy and Stuart Sweetman had already briefed DTI thoroughly on the implications for the rural network if it were aborted.

It was agreed that the Board's position was to support the continuation of the Programme.

**COMPETITIVE
OVERHEAD PROGRAMME:
PROPERTY AND FACILITIES
MANAGEMENT
RICHARD CLOSE
(POB(98)28)**

PO98/44

The Board approved expenditure of £8m on implementation fees and a special DFE provision of £8.3m for EVR and relocation costs, with future expenditure to be authorised through the normal project authority process.

**AUDIT COMMITTEE
REPORT
PETER ALLEN
(POB(98)29)**

PO98/45

- (i) Audit fees had been reduced considerably.
- (ii) Treasury controls were good.

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- (iii) A number of Royal Mail issues were being kept under review.
- (iv) The planned centralisation of internal audit would better utilise resources.

ACTION

John Roberts

To further review internal controls in POCL's cash centres which were still not operating satisfactorily.

BOARD MEMBERS' INTERESTS SECRETARY (POB(98)30)

PO98/46

The Board agreed that relationships would not be started or deepened with companies of which the Chairman was a Board member without the express consent of Ministers.

MaPEC FINANCE EXCELLENCE - REVENUE MANAGEMENT STRAND RICHARD CLOSE (POB(98)31x)

PO98/47

Noted

ANY OTHER BUSINESS

PO98/48

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

DATE OF NEXT MEETING

PO98/49

12 May at 148 Old Street.