

POB(98)3rd
PO98/21 to 32

In Strictest Confidence

Copy No

POST OFFICE BOARD

Minutes of the meeting held on 10 March 1998
at 148 Old Street, London

Present

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

Also Present

Mr R Dykes, Managing Director Royal Mail
Mr S Sweetman, Managing Director Post Office Counters Limited
Mr K Williams, Managing Director Parcelforce Worldwide

Others Attending

Mr K Wright, Assistant Managing Director, Royal Mail and Mr K Barker, Director & General Manager, Royal Mail North Wales & North West, for PO98/23
Ms J Irvine, Group Personnel Strategy Director & Mr D Courtier, Pensions Strategy Manager, for PO98/24
Mr A Novak, Director & General Manager, Royal Mail National, for PO98/26

**MINUTES OF
PREVIOUS MEETING**

PO98/21

The Board APPROVED the minutes of its meeting of 10 February 1998

**CHIEF EXECUTIVE'S
REPORT POB(98)15**

PO98/22

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

- (i) Royal Mail had achieved a profit of £37m in January against a budget of £41m. Cumulatively, profit was now £527m against a budgeted £470m. Counters had achieved a profit of £5m against a budgeted loss of £1m which was entirely due to overhead underspends which

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were £7m better than budget. Parcelforce's recent good performance was maintained in January with a loss of £2m against a budgeted loss of £4m;

- (ii) Royal Mail was maintaining its full year profit forecast at £540m with expenditure savings of £31m now brought into the forecast, compared with £25m reported last month (PO98/). Additionally, a further £3m of expenditure had also been advanced from 1998-99. Consideration was being given to a potential payment to employees, which would in total cost £25m. This had been taken into the forecast although some doubt still existed over whether such a payment should be made. Opportunities considerably outweighed risks through higher inland volumes, further expenditure savings and the delayed implementation of the REIMS II agreement;
- (iii) the original Employee Agenda provision of £31m could now be released with a new provision of £31m almost certainly being allowed. This new provision was in respect of several new employee initiatives which had been pursued in the wake of the Agenda, including a conduct and attendance agreement, new bonus scheme, pay restructuring, which had still to be discussed by the Executive Committee, and delivery trials. Internally, the focus was very much on delivery and productivity improvements

noted in discussion that

- (iv) Royal Mail's strong profit position provided a £25m opportunity which, if not taken to profit might potentially be paid to employees in recognition of the increased volumes that Royal Mail had successfully handled. If a payment were to be made it would be at a flat rate of £150 and would only be within Royal Mail. Alternatively, the £25m could be used to plug the £40m capital shortfall that existed in next year's budget or help fund future joint ventures. Mr Roberts would decide this with Mr Dykes within the following week

noted further that

- (v) January had been a good month for Parcelforce with income £0.5m over budget and expenditure £0.9m under budget, although the majority of this was from 'other' costs rather than staff costs which were £0.8m adverse;

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- (vi) prospects for February appeared good with provisional volumes 5% higher than last year against a budget assumption of 3% higher. However, the likelihood was that in response to the increased volumes, manpower would outturn above budget and that international performance would once again be weak;
- (vii) Parcelforce's likely full year forecast was a loss of -£18m although this did not include a £2m pensions benefit;
- (viii) Counters' full year forecast had been held at £30m. It had previously been thought that only £7m-£8m of the £12m Horizon provision would be agreed with the auditors. However, a recent review of the cost of preparing offices for Horizon had shown an increase from £300 to £900 per office and in total this resulted in a potential provision of £16m;
- (ix) the cost implications of the conversions programme being suspended had been provided to DTI, as had its implications for 1998-99 and 1999-00

noted in discussion that

- (x) the original cost assumptions for preparing offices for Horizon were now two years old and the review just completed with ICL Pathway had been based on a new office profile. The impact on POCL's business case had still to be confirmed and would be presented to the April Board

noted further Mr Roberts' report and in particular that

- (xi) it was hoped that Terms of Reference for the next stage of the Post Office Review would soon be available. Once they were, it would be necessary for the Board to consider the stance it wished to take against various options. The political sensitivities would also need to be addressed at this time;
- (xii) Mr Roberts and Mr Sweetman had recently met Mr McCartney, The Post Office Minister, to outline the current position with regard to Horizon. Work was currently in hand with the DTI to prepare a case which Mr McCartney could send to his colleagues reaffirming the key features and benefits of the programme, as well

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as encompassing the wider benefits that could occur through Government Direct and social banking. It was known that the DSS were not seeking to withdraw unilaterally from the programme or press for a more rapid adoption of automated credit transfer through banks. However, should withdrawal result, the direct financial impact on Counters could be small although the business would face legal action from ICL. The burden of any legal action would, however, fall on the DSS and this lessened the likelihood of the programme being wound up;

- (xiii) since the previous Board meeting, the BBC had published an OJEC notice seeking tenders for the collection of TV licence revenue. Mr Roberts had spoken to Mr Birt, Director General of the BBC, who had confirmed that a cost efficient operation combined with a good technical specification was being sought. He had also confirmed that there was no predisposition against receiving a tender from SSL and SSL subsequently being the successful tenderer. This view had been confirmed by other sources within the BBC, as had the view that SSL's technical operation might not be as forward thinking as others within the market. In view of this, SSL was considering a tender with an external IT partner who could provide the expertise that the BBC sought. In preparing the tender, it was probable that an individual external to SSL would be appointed to lead a team that would itself be divorced from SSL. The fact that the BBC were seeking tenders would, as an uncertainty, need to be qualified within the Report & Accounts;
- (xiv) provided the Chancellor's forthcoming budget had no adverse impact on The Post Office, a 12 month prize freeze for first and second class mail would be announced at the end of March
- (xv) agreed that the following profit/loss forecasts be released to the DTI: Royal Mail £530m; Counters £30m; and Parcelforce -£20m

LIVERPOOL**PO98/23**

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

In Strictest Confidence**PENSIONS 2000 -
A REVIEW OF
STRATEGY
(POB(98)18)**

PO98/24

The Board noted the paper by Mr Cope and in particular that

- (i) a number of factors had influenced the recent review of The Post Office's pension arrangements. These factors were: the opportunity to avoid an increase in the POPS contribution rate for employees and the employer; avoidance of inefficient POSSS investments caused by the balance of pensioners to serving members; the desire to inject the concept of a money purchase scheme, maintenance of the POSSS contribution holiday, avoidance of industrial relations difficulties, and Government's pension strategy, including the possible move to compulsory pensions;
- (ii) these factors had generated a strong imperative for change and had led the review team to three conclusions: that POPS and POSSS investment and administration should be merged; that the POPS members' contribution rate should be fixed, with The Post Office paying the balance of cost; and that a flexible low cost money purchase option should be introduced;
- (iii) avoiding an increase in POPS employer contributions would produce measurable savings of £25m p.a. with over the longer term (i.e. ten years and beyond), a potential saving of a further £25m p.a. being possible as a result of an adjustment in the investment strategy
noted in discussion that
- (iv) benefit issues were a matter for The Post Office and the union, with the Trustees adopting a neutral position;
- (v) with regard to the fixing of the POPS employees' contribution rate, the union was seeking a rate of 6% which was the same as that for POSSS. The Post Office was preparing costing models based on a rate of between 5.5% and 6%. Although fixing the contribution rate was not without some degree of risk, the balance of risk was heavily skewed in favour of The Post Office. It was also possible to change the rate, although the 6% rate that applied to POSSS had not been altered since 1971. From a union perspective, the fixing of the contribution rate

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was a significant benefit as it protected members from any future increases;

- (vi) in Dr Grieves' experience it was important that the Trustees were well appraised on the work being undertaken and that discussions, and in particular the desired outcome, were fully minuted;
- (vii) agreed the development of detailed proposals to support the proposed strategic direction, and that costed and benchmarked proposals would be worked up as the strategy unfolded

**POST OFFICE GROUP
BUDGET 1998-99
(POB(98)16)**

PO98/25

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

- (i) key drivers of the 1998-99 budget were achievement of Royal Mail's RUC target, successful progression of Horizon and achievement of the ROT for Counters profit target, and continued financial improvement within Parcelforce;
- (ii) the business budgets had been through a detailed review process, both within the respective businesses and with Group Executives. The 1998-99 budget presented to the Board had been endorsed by POEC;
- (iii) four of the key budget issues: cost of staff flexibility; Royal Mail and Parcelforce productivity; project spend; and Horizon, replicated those of 1997-98. New issues included: Royal Mail's growth forecast set significantly above GDP(L); consolidation by Parcelforce and Counters to maintain market share; uncertainty for SSL over the BBC contract; and the need to drive through transformational change funded by increased efficiency;
- (iv) with regard to targets, Royal Mail had set a budgeted profit of £478m, and inland volume growth of 5% which for the first time was set significantly above GDP(L). Whilst in headline terms manpower was set to increase, in real terms, taking account of expected volume growth, numbers in 1999 would actually be 3,200 lower than March 1997. Productivity improvement would increase by 1% to 3.5%;

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- (v) Counters' 1998-99 profit had been budgeted at £30m. Income from core business was expected to be slightly less than in 1997-98, with growth resulting from the other Post Office businesses, new and recent products and licence fees. Efficiency savings of £46m had been budgeted mainly from regional efficiencies and central units cost reductions;
- (vi) Counters' budget assumed that conversions would recommence in the second half of 1998-99;
- (vii) Parcelforce had budgeted for a loss of £12m in 1998-99, although this would be adjusted should a loss of £15m, rather than the forecast £20m be achieved in the current year;
- (viii) the budget had assumed that the income decline from Standard traffic had bottomed. Strategic investment and other cost charges of £24m had been included within the budget;
- (ix) manpower was set to reduce over the period with a reduction of 520 in March 1999, compared with the March 1997 total;
- (x) SSL's budget relied heavily upon its contract with the BBC, producing 80% of the business's income
noted in discussion that
- (xi) in reviewing the Business budgets, the Executive had tried to obtain a balance between risk and opportunities and this was reflected in the budgets now submitted. In adopting this approach, the net proceeds from the disposal of KEB had not been taken into account. An EFL target of £335m had been assumed, although this had still to be confirmed by Government;
- (xii) although some Members were not convinced that the mechanics for correctly understanding the percentage increase in manpower numbers were in place, it was acknowledged that steps to improve understanding had been taken through the separate reporting of planned reductions and growth assumptions within the Chief Executive's report, and through the annual stocktake of manpower which had been introduced last year;

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- (xiii) under Government accounting rules the £105m shown as interest against past surpluses could not at present be accessed by The Post Office although it was a vital element of profit. Given current constraints the level of surpluses was likely to rise;
- (ix) although the budgeted growth in Royal Mail National volumes reflected the success of recent advertising campaigns, the budget was nevertheless challenging

agreed the Business budgets for 1998-99

SPECIAL STAMP PROGRAMMES

1999-2001 (POB(98)17)

PO98/26

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

- (i) the Board had approved the three year Millennium programme in 1997 (PO97/) and endorsed the overall theme of 'time';
- (ii) for the 1999 programme, the concept of using icons, innovations and endeavours remained as previously reported, but rather than have nine separate issues, it was now intended to cover forty eight subjects in twelve issues, with four stamps per issue. Themes would cover a thousand years of history and be representations of the way we live and think, brought alive by different tales e.g. an inventors' tale or a travellers' tale. Different artists would be commissioned for each stamp, with the stamps being individually numbered to enhance their collectability;
- (iii) the 2000 stamp programme was intended to represent the 'Best of British' portraying the British people as they commemorated the year 2000. It would again be a forty eight stamp set with twelve issues of four stamps per issue. The theme was to be 'routes' with each stamp representing a Millennium site, with the complete set of stamps providing a 'route' along which the public could travel. Routes would include: science, environment, technology and travel. The programme would also front Post Office activity for the year 2000;
- (iv) as part of the year 2000 programme, a Millennium stamp was to be issued which would replace the First class

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definitive stamp. Whilst its design had still to be determined, it would aim to capture the mood of the nation;

- (v) arrangements for the Stamp Show 2000, which would take place at Earls Court Exhibition Centre, were well underway and external support for the show had been good. The Queen had agreed to be patron of the show

noted in discussion that

- (vi) Members congratulated those concerned with the progress that had been made and were encouraged by the design concepts that had been presented

approved the proposals for the Millennium Programme

BOARD PAY

PO98/27

- (i) The Board was extremely disappointed, but not surprised, by Government's recent decision on Board Members pay, which had been set below the level of awards to other Post Office Employees. In particular Members were concerned at the insensitive way the matter had been handled, the length of time taken to make a decision, and the fact that the assurances given when the review date was altered had been disregarded

noted in discussion that

- (ii) Members thought it appropriate for the Remuneration Committee to write to Government expressing the Boards' disappointment and concerns. Sir Christopher Harding, as Chairman of the Remuneration Committee, would discuss the timing of this with Dr Neville Bain, Chairman Designate

REPORT & ACCOUNTS PO98/28

The Board noted that the 1997-98 Report and Accounts would be published as two separate documents, driven to some extent by the need to publish a Welsh language version of the Annual Report

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**IMPLEMENTING THE
EU POSTAL
DIRECTIVE (POB(98)19x)** PO98/29
The Board noted Mr Cope's report

**MaPEC HALF YEAR
REPORT (POB(98)20x)** PO98/30
The Board noted MrClose's report

**THE POST OFFICE
PENSION SCHEME 6th
SUPPLEMENTAL DEED
& THE POST OFFICE
STAFF SUPERANNUATION
SCHEME 27th SUPPLEMENTAL
DEED (POB(98)21x)** PO98/31
The Board noted Mr Cope's paper

Agreed that the POPS 6th Supplemental Deed and the
POSSS 27th Supplemental Deed be executed

**DATE OF NEXT
MEETING** PO98/32
The Board noted that its next meeting was scheduled for
14 April at 148 Old Street