

In Strictest Confidence

POB(97)11th  
PO97/127 to 140

Copy No

POST OFFICE BOARD

Minutes of the meeting held on 9 December, 1997  
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 A Williams, Director Communications and Corporate Relations for PO97/131  
Mr M Linsell, Assistant Managing Director Post Office Services Group, for item PO97/131

**MR RICHARD CLOSE      PO97/127**

The Board congratulated Mr Close on completing 10 years service with The Post Office on 1 December 1997

**SIR MICHAEL HERON      PO97/128**

The Board Thanked Sir Michael for his Chairmanship over the past 5 years, paid tribute to his contribution during a particularly eventful period, and wished him the very best in his retirement

**MINUTES OF  
PREVIOUS MEETING**

**PO97/129**

The Board APPROVED the minutes of its meeting of 11 November 1997



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**MATTERS ARISING**  
**POB(97)84**  
 Post Office Staff  
 Superannuation Scheme  
 (POSSS)  
 (PO97/123)

**PO97/129**

The Board noted the paper and in particular that the Trustees of POSSS had met and agreed to a full valuation of the Scheme in March 1998

**CHIEF EXECUTIVE'S**  
**REPORT POB(97)85**

**PO97/130**

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

- (i) Royal Mail's profit in October had outturned at £76m compared with a budget of £68m. Parcelforce had outturned at a profit of £0.1m which was disappointing when compared with the budget of £3m. Counters' profit of £13m was against a profit of £4m, with the increase mainly the result of expenditure savings;
- (ii) although volume fluctuations within both Streamline and Royal Mail National had occurred during the past year, when volumes were combined the trend was very much in line with budget;
- (iii) in the first seven months of 1997-98, Royal Mail had achieved a profit of £380m, compared with a budget of £327m. To achieve its current full year forecast of £532m the business needed to record a profit of £152m over the last 5 months of the year, compared with a budget of £199m. Potential benefits from the recovery plan initiated earlier in the year when performance had appeared more fragile, and the release of the Employee Agenda provision, could increase profit to £581m;
- (iv) Parcelforce had had a disappointing October with income £2.1m below budget and expenditure £1m above. Provisional indications were that November's performance had improved with a profit of £2m compared with a budget of £2.8m. This data was still unconfirmed but could mean that October's result was exceptional;
- (v) with regard to volume, Parcelforce's cumulative performance was above budget, driven by Standard

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which was 6.7% better than the forecast decline. However, both Next Day and PF48, the high unit revenue streams, were well below budget and this poor mix of traffic was reflected in the cumulative income result which was £3.5m below budget;

- (vi) when the Board agreed to set Parcelforce's full year budget at -£15m (PO97/57), it was based on the business' ability to halt and reverse what appeared to be a downward performance trend. A reassessment of this original judgement now indicated a balanced view that a loss of -£25m was most likely, although still subject to some downside risk

noted in discussion that

- (vii) Parcelforce's manpower in October was 800 above budget and financially this equated to an additional cost of approximately £1m per month. In assessing the likely full year loss it was therefore important to establish whether or not this increase would be carried for the remainder of the year as a consequence of higher volumes and service levels. Parcelforce's productivity levels were good and somewhat higher than those of its competitors and in the business' opinion its uncompetitive cost base was of greater significance. However, following agreement to its pay proposals (PO97/118) the cost base would start to reduce and the business' competitiveness increase;
- (viii) a useful indicator of Parcelforce's performance could be gained through a comparison of performance of the packet stream within Royal Mail, although it would not be possible to compare costing details as this information was not available. A key issue with regard to packets was price, with Parcelforce's competitive position possibly being strengthened through the introduction in 1999 of format based pricing in Royal Mail. It was recognised that for Royal Mail to increase packet prices before the introduction of format based pricing would be difficult given the level of profits currently being achieved;
- (ix) in an attempt to hold the full year loss to -£15m a number of actions were planned, including a meeting with the union which would highlight the difficult trading position and seek support to proposed

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improvements. A strategic review of the business was also to be undertaken together with a full review by POEC in January. This would culminate in a report to the Board in February which, notwithstanding the LEK report submitted to Government, would set out the strategic options for the business

noted further that

- (x) Counters' original Government target was to achieve a Return on Turnover of 2.5% which equated to a profit of £30m. However, reduced income, whilst maintaining the ROT at 2.5%, resulted in a target profit of £29.4m. Suspension of the conversions programme impacted on profit by £5m and current forecasts were for a full year profit of £26m. An assessment of Counters' risks and opportunities revealed potential improvements of £21m, mainly the result of expenditure savings and the provision for Horizon being disallowed by Ernst & Young;
- (xi) a key issue for Counters' was its competitive position with income currently being lost through a lack of competitiveness in areas such as bill payments, where the utilities were being forced by their regulator to squeeze out costs and were therefore seeking alternative, cheaper payment methods. The viability of maintaining the network was a key issue for Counters' and one that would need to be seriously considered during the planing round;
- (xii) The Post Office would at this point in the target cycle normally be determining its negotiating strategy for Government targets. However, with uncertainty over the outcome of Government's Review, ACT, LEK, Counters profitability and Royal Mail's industrial relations and productivity, the opening of negotiations would be delayed until the publication of the Review; Government was not expected to oppose this stance

noted further Mr Roberts' report and in particular that

- (xiii) the Commons Trade and Industry Select Committee had been held on 24 November and without the output of the Review to discuss, the Committee had covered a wide range of diverse issues. In general the Committee was supportive of The Post Office's commercial aspirations.

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Mr McCartney, The Post Office Minister, refused to be drawn on the outcome of the Review and provided no information with regard to the EFL;

- (xiv) the Information Memorandum on Quadrant had been issued to prospective partners on 10 November. A range of bids had been received which were now being reviewed by Schrodgers. A paper on the joint venture would be brought to the Board in January;
- (xv) Royal Mail's international pricing proposals had been announced on 8 December to limited media coverage. An article in the consumer magazine 'Which' had recently criticised a cross section of services offered by The Post Office; this had been strongly and successfully rebutted. The annual report by the Post Office Users National Council (POUNC) had been published on 28 November and a constructive response to it was being prepared

noted in discussion that

- (xvi) with regard to the profit/loss figures reported to DTI, Members were concerned that the numbers should reflect the current assessment of the businesses' likely full year outturn. In view of this Members agreed that Counters forecast of £33m should remain unaltered and that Royal Mail's should be increased to £540m, reflecting potential savings opportunities. As far as Parcelforce was concerned, Members agreed that the -£15m forecast could not be sustained and considered it prudent to revise this to -£20m, a figure Parcelforce management still thought achievable, and importantly was still lower than the loss recorded in 1996-97
- (xvii) Agreed that the following profit/loss forecasts be reported to the DTI. Royal Mail £540m, Counters £33m, and Parcelforce -£20m

**THE FUTURE OF POST OFFICE HERITAGE**  
PO97/131  
POB(97)86

The Board noted Mr Roberts' paper and in particular that

- (i) the disposal of KEB, within which The Post Office museum was located, necessitated vacation of the premises by the museum before October 1999. This

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therefore provided an opportunity for a fundamental review of Post Office heritage and its future exploitation. Heritage had been defined not only to include artefacts and records and the achievements of individuals from within the organisation, but also encompassed the organisation's role in education and the public life of the country and local communities. It would also incorporate The Post Office's film archive. Options for the future management of The Post Office's heritage had been considered by the Executive Committee at its December meeting and the Board's endorsement of their recommended option, option 2, was now being sought;

- (ii) the wholesale disposal or dispersal of the heritage collection, which was viewed as an abandonment of the organisation's corporate history, had been rejected, as had the minimum solution of relocating to a smaller site which maintained the present collections and display. This option offered little or no demonstrable payback and would incur capital costs of £4m, with on going costs unchanged at £1.8m;
- (iii) with the help of external consultants, three options had been developed with "soft" costings. Option 1 maintained a relatively traditional museum approach, with a limited retail/catering operation and small audio visual facility. This incurred a capital cost of £6.2m. Option 2 encompassed a radical overhaul of the museum's presentation through the use of interactive gallery technology. It also incorporated a 150 seat theatre/presentation arena, a conference facility with retail and catering space and incorporated a Group-wide educational resource working with schools, places of higher and further education, and local communities. This option incurred a capital cost of £14.2m. The third option was also the most radical, incorporating a virtual reality facility and a commercial opportunity to generate revenue streams which in the medium term would reduce the revenue cost to The Post Office of managing the heritage facility. This option had a capital cost of £20.9m

noted in discussion that

- (iv) some of the income generated from the sale of KEB was to be set aside for the development of the heritage project; this assumed no Government intervention and

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that the funding would affect The Post Office's ability to meet all its targets,

- (v) in the Chairman's view, it was important to ensure that the history and role of Counters was included within the museum;
- (vi) the possibility of locating artefacts etc. within an existing museum had been considered but there had been little external enthusiasm for this. Developing a stand alone Post Office site through a joint venture remained a possibility and would be explored further;
- (vii) research had indicated that a central London site was the ideal location for a museum and was in fact essential should either option 2 or 3 be progressed. A charge to visitors of £2 95 was proposed, this being comparable with similar museums;
- (viii) some Members thought it preferable to develop a proposal that utilised technology to its maximum, as proposed under option 3. However, generally Members felt this option unjustifiable commercially and considered option 2, which over time could be upgraded to incorporate greater use of technology, the ideal way forward

Endorsed

- (ix) the Executive Committee's recommendation of option 2 for the future management of The Post Office's heritage; and
- (x) further development work to build a full business and investment appraisal case to go to MaPEC in June 1998

**HORIZON UPDATE**

**PO97/132**

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

- (i) following a meeting between the three Managing Directors of the three interested parties (POCL, Benefits Agency (BA) and ICL Pathway), in October, which had been arranged in response to the independent review of the programme by external consultants PA, further work

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had been agreed and a further review meeting arranged for 8 December;

- (ii) at the review meeting a number of issues had been discussed. It had been agreed that Horizon remained the best way forward for all parties, notwithstanding the financial difficulties to which the BA/DSS was now exposed (PO97/120). Automation of the entire network of offices had also been endorsed, although the smallest 3,000 would be equipped with 'scaled down' technology. Additionally, POCL and Pathway had agreed to work more closely together and Counters' Managing Director had been tasked to identify a Programme Director who would act as the prime contact for the BA with Pathway. It had also been agreed to disband the Programme Development Authority (PDA) which until now had overseen development of the programme;
- (iii) with regard to the current situation, Pathway had successfully achieved its latest milestone, with 205 offices now operating the card payment system. The specification for Release 2, which was the bill payment system, was due to be agreed during December, with Pathway confident that it could be delivered by October 1998, although Counters felt that January 1999 was a more realistic timescale. Live testing of the programme was still planned for November 1998 to March 1999 with national rollout starting in April 1999. The speed at which further commercial opportunities could be developed remained a key concern with any delay having a major impact on Counters' commercial position. Check steps had now been agreed which would ensure closer monitoring of the programme;
- (iv) even allowing for the BA/DSS Public Expenditure difficulties, their financial case remained positive over the long term. ICL Pathway were stretched financially and to alleviate this were seeking to extend the period of their contract by a further 5 years; should this not prove possible it was likely that they would seek to increase prices. Horizon remained central to the success of Counters and gaining Government support to it was crucial. A potential opportunity to improve the appeal of the programme existed through Counters' involvement in 'social banking' which would seek to bring the financially disadvantaged into simple

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financial/banking services. Counters saw this as a migration towards new services, not the replacement of existing ones. Given the risk of delay to the programme and the development of commercial interests with other clients, Counters was considering what generic products could be developed i.e. banking;

- (v) with regard to the future, the DSS would be passing a report on the programme to the Permanent Secretary at the DSS before Christmas and Counters would be briefing Mr McCartney, The Post Office Minister. To raise the profile of Horizon, lobbying of Treasury officials was planned which would highlight its positive benefits. Commitment to a new programme plan was also needed from Counters, BA and ICL Pathway by January 1998. Counters would continue scoping discussions on 'social banking' and introduce by March 1998 the improved organisational functions needed to drive the project through

noted in discussion that

- (vi) influencing Government to support Horizon was crucial and initiatives such as 'social banking' and the development of electronic services across the network could only help in this regard. Opportunities to exploit the recently announced ISAs (Individual Savings Account) would undoubtedly be sought, although it was likely that Counters would look to handle transactions on behalf of clients such as Girobank, rather than deal directly with public sales

Thanked Mr Sweetman for his report

**PREPARING FOR  
ECONOMIC MONETARY  
UNION WITHIN THE  
POST OFFICE - UPDATE PO97/133  
POB(97)87**

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

- (i) planning for European Monetary Union (EMU) and evaluating its impact across The Post Office, had been based on the UK being one of the first wave of countries to join EMU, and the recent statement by the

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Chancellor, which ruled this out, in no way diminished the importance of the activities being pursued;

- (ii) it had not yet been possible to complete the systems impact analysis as the industry standards that were to be applied European wide had not yet been agreed. It was hoped that information would be published in the spring of 1998. Work had been carried out to identify the number of systems likely to be affected, those where action was already underway and those for which no action had as yet been taken. Whilst encouragingly, 80% of affected systems had already been identified for action, it was a concern that a number of major systems, such as Horizon and SAPCON (a financial accounting system) within POCL, which were expected to replace existing non-compliant systems, would, if delayed, leave a number of systems in place and in need of urgent remedial action

noted in discussion that

- (iii) for The Post Office, the main areas of concern fell within Counters, where EMU would impact upon the processing of cash at counters, the operation of Notes Held To Order, and Bureau de Change. Nevertheless, a considerable amount of work had already been carried out and The Post Office was well represented on a number of working groups established by the Chancellor of the Exchequer

**POST OFFICE  
UNAUDITED  
ACCOUNTS FOR THE  
HALF-YEAR TO  
SEPTEMBER 1997 (i)  
POB(97)88**

**PO97/134**

The Board noted Mr Close's paper and in particular that the accounts for the half-year to September 1997 had been reviewed by the Board Audit Committee and Ernst & Young. The results contained within the report were the same as those previously reported to the Board (PO97/118)

noted in discussion that

- (ii) although Ernst & Young had been content with the accounts, they had highlighted some concerns over year end provisions which they would need to discuss further. They had also commented on the presentation of

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Parcelforce's results which they said should be circumspect and realistic

AUTHORISED

- (iii) the signing of the letter of representation

AGREED that

- (iv) the half-year results be published in the format of appendix 1 to the paper and that the publication date be determined by the Chief Executive and Managing Director Finance in liaison with the Director Communications and Corporate Relations

**PROJECTS APPROVED  
BY MaPEC REQUIRING  
ENDORSEMENT BY  
THE BOARD  
Capitalised Crime  
Prevention Programme  
For Suboffices  
POB(97)89**

**PO97/135**

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

the proposal was for a programme of spending spread over 5 years to install business-standard security equipment in approximately 4,000 sub-offices with the highest exposure to robbery and burglary. Previously, subpostmasters had had to contribute towards the cost of equipment but under these proposals the costs would be met by The Post Office and as such the assets would be owned by The Post Office and could be capitalised

noted in discussion that

- (ii) the equipment would consist of high quality glass screens with some higher risk offices also having rising screens. These were metal screens which would rise up from the counter providing protection to employees from gun shots within seconds of being activated. Similar equipment was used by banks and building societies. Offices that did not have rising screens would have 'safe' areas directly beneath the counter. The new equipment, whilst providing a more secure environment, was also designed to be customer friendly and allowed for a more open dialogue between customers and employees;
- (iii) some Members were concerned that having identified a problem, Counters could be criticised for the time

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taken to implement improvements. Counters recognised this but had to balance the limited resources that were available to it. The age and design of many of the offices also meant that considerable planning and design work had to be carried out before implementation could occur. The action being taken was a positive and welcome move and one that highlighted Counters' commitment to the safety and well being of its employees

Endorsed

- (iv) MaPEC's approval of POCL's programme to spend £44.9m over 5 years

**PROJECTS  
APPROVED BY  
MaPEC REQUIRING  
ENDORSEMENT BY  
THE BOARD -  
Birmingham Divisional  
Administration  
Offices POB(97)90**

**PO97/136**

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

(i) the increase in costs, which had doubled since the original 'in principle' agreement had been given in 1996 (PO96/43), was the result of sharp increases in office rents in the Birmingham area. It had not been possible to utilise a PFI as the level of risk that would be carried by the scheme would be insufficient to qualify as a PFI

Endorsed

- (ii) the leasehold acquisition of 49k sq.ft. of accommodation at 3 Brindley Place Birmingham, at an annual rental of £13m and an annual service charge of £0.2m;
- (iii) the fit out of 3 Brindley Place, and subsequent transfer of Midlands divisional administration staff from the existing accommodation , at a maximum cost of £3.7m;
- (iv) the signing of agreements to dispose of the MLO at Royal Mail Street for proceeds of £4m

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**PROJECTS  
APPROVED BY  
MaPEC REQUIRING  
ENDORSEMENT BY  
THE BOARD-  
Strategic Leasehold  
Acquisition Of Office  
Accommodation For  
POCL POB(97)93x**

**PO97/137**

The Board noted the paper by Mr Close

**MANAGEMENT OF  
HEALTH & SAFETY  
POB(97)91x**

**PO97/138**

The Board noted the paper by Mr Cope

**CHAIRMANSHIP  
OF POST OFFICE  
PENSIONS  
TRUSTEES  
LIMITED POB(97)92x**

The Board noted the paper by Mr Cope

AGREED the re-appointment of Roy Chapman as  
Chairman of Post Office Pensions Trustees Limited for a  
three year period until 31 March 2001

**POST OFFICE FINANCE  
LIMITED- PROGRESS  
POB(97)94x**

**PO97/139**

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

- (i) considerable effort and no little skill by Group Treasury employees had reduced the balance of loans outstanding, which had been inherited from Girobank at the time of its sale in 1990, to just over £1m from an original total of £115m

**DATE OF NEXT  
MEETING**

**PO97/140**

The Board noted that its next meeting was scheduled for  
13 January 1998, at 148 Old Street