

In Strictest Confidence

**POB(00)2nd
PO00/11 to 28**

POST OFFICE BOARD

**Minutes of the meeting held at 148 Old Street
on 14 March 2000**

Dr Neville Bain	Chairman
John Roberts	Chief Executive
Richard Close	Group Finance Director
Jerry Cope	Group Managing Director Strategy & Business Development
Mike Kinski	Non-Executive Member
John Lloyd	Non-Executive Member
Rosemary Thorne	Non-Executive Member
Miles Templeman	Non-Executive Member
Jonathan Evans	Secretary
Scott Childes	Notes
Teresa Redler	Notes

Richard Dykes, Group Managing Director, Mails Services
Stuart Sweetman, Group Managing Director, Customer and Banking Services.
Kevin Williams, Group Managing Director, Distribution Services

Others attending: Basil Larkins, Managing Director, Network Banking, and Paul Rich, Managing Director, Customer Management for PO00/17
Alan Williams, Group Corporate Affairs Director, and Susan Burgin, Director Communications Strategy, Group Centre for PO00/18
Dom McKenna, Director Mergers and Acquisitions, for PO00/19

TERESA REDLER The Chairman welcomed Teresa Redler who would be covering the Head of Secretariat vacancy during Nicky Jayson **GRO**

**MINUTES OF
PREVIOUS MEETING**

PO00/11

The Board approved the minutes of its 11 January meeting and the special meeting held on 22 February 2000.

**MATTERS ARISING
POB(00)10**

PO00/12

- (i) The Board noted the matters arising from its meeting held on 11 January 2000.

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FINANCIAL OVERVIEW PO00/15

- (i) Provisional profit results for January were:
- Royal Mail £3m
 - POCL £(7)m (exec Horizon)
 - Parcelforce £(9)m (inc Special Delivery)
- (ii) The full year profit/loss forecasts were:
- Royal Mail £426m
 - POCL £33m (exc Horizon)
 - Parcelforce £(20)m (inc Special Delivery)
- (iii) The Group full year post tax profit forecast was currently £331m against a target of £350m. Opportunities to bridge the £19m gap would be through improved trading in all businesses and a reduced provision for taxation.

Irrelevant

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OPERATING PLAN
AND BUDGET
POB(00)12

PO00/16

- (i) The 2000-2001 budget process had started 6 months previously, with initial "sketches" from each Business Unit undergoing a series of reviews before clearance through the Executive Board, and presentation to the Board for final approval.
- (ii) This year's process - the first in the new post-SCS organisation - was made more complicated by the lack of historical performance trends. The main iterations within the process had been at business unit level, and the need for unit Managing Directors to "own" the development of their budgets had played an important part of the process.
- (iii) Among the key issues determining the shape of the OPB were the costs of Horizon and related automation, productivity and internal trading.
- (iv) The original Strategic Plan pre-tax profit target of £618m could, through incorporation of a number of changes since the Plan was produced, be re-assessed at £373m. However indications from the DTI were that this figure could not be assumed as The Post Office target as it may be argued that some of the changes were normal business volatility that should be absorbed. The final DTI position was still awaited.
- (v) Noted further that

Service Delivery was expected to reduce staff levels by 5,000. Details of this and other changes across the Post Office would be circulated to Board Members.
- (vi) 2000/01 was a year of transition, with increases in expenditure to secure benefit in later years. In addition, it had been recognised previously that profits of £600m pa were not sustainable.
- (vii) The plan assumed an increase in pension costs of £62m.

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- (viii) The plan also assumed a productivity improvement in Service Delivery of 3.9%. A critical underpinning of this was the implementation of the Way Forward agreement, which needed to be fully deployed by the end of 2000.
- (ix) Whilst acknowledging the particular issues which would depress profit achievement in the year, in the view of non-executive members the proposed OPB was disappointing, and fell some way short of what would be needed to compete effectively in a liberalised market. In particular non-executive members felt the OPB appeared to accept too readily that one-off costs were "allowable", and that the underlying improvement in productivity - despite the considerable investment in the Way Forward deal - was modest.
- (x) It was, nevertheless, recognised that 2000/01 was a difficult transitional year, and that it was the clear intention that the Plan targets should be exceeded.
- (xi) The Board noted the assumptions underpinning the Plan, and approved the OPB for 2000/01.

Action

Richard Close (i)

Circulate details of manpower changes to Board Members.

The Secretary (ii)

Ensure that Business Unit Managing Directors are provided with a copy of the OPB paper and Board minutes.

**COMMERCIAL
DEVELOPMENT OF THE
HORIZON PLATFORM
IN POST OFFICE NETWORK
POB(00)13**

PO00/17

- (i) For the past seven months all milestones had been met in the rollout of Horizon. By the end of March 4,000 post offices would have Horizon installed.
- (ii) The commercial use of the Horizon platform was under active consideration by the Performance and Innovation Unit team looking at the future of the Post Office Network. Their emerging conclusions were in line with Post Office proposals for Network Banking and Government Gateway opportunities.
- (iii) Network Banking: Banks had confirmed in discussions that while branch closures were still high on

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their agenda, a continuing physical presence in communities would still be a necessary part of their channel strategy.

- (iv) Use of The Post Office network to enable continuing bank branch rationalisation therefore presented a realistic commercial opportunity. However, the banks had already downsized without The Post Office's help, and therefore the size of this opportunity should not be over-estimated.
- (v) The social banking strategy - to develop a three way partnership with banks, Government and The Post Office to produce a proposition to provide limited banking facilities for the "unbanked" - was potentially a more attractive proposition. Government's support would be vital for this project to succeed.
- (vi) Government Gateway This proposition had been viewed as the most difficult to achieve but potentially offered the biggest returns. A new e-business proposition - "Eclipse" - had been developed out of the Government Gateway strategy providing a multi-channel approach enabling consumers to acquire advice and information on, and undertake transactions with, Government departments on "important life episodes". Early market research of customer attitudes looked favourable.
- (vii) The Board supported the outlined approach for commercial exploitation of the Horizon platform, recognising that more development needed to be completed before full commercially-justified business cases could be considered.
- (viii) Thanked Basil Larkins and Paul Rich for their presentation.

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DATE OF NEXT MEETING PO00/28

The next meeting was scheduled for 4 April 2000.