

POB(98)5th
PO98/50 to 63

In Strictest Confidence

Copy No

POST OFFICE BOARD

Minutes of the meeting held on 12 May 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

MINUTES OF
PREVIOUS MEETING

PO98/50

The Board approved the minutes of its meeting of 14 April 1998.

MATTERS ARISING
POB(98)32

PO98/51

The Board noted the matters arising from the meeting of 14 April 1998.

CHAIRMAN'S
BUSINESS

PO98/52

- (a) The Chairman had spent time building internal and external relationships.
- (b) He provided positive feedback about the Senior Managers' Conference which he had addressed.
- (c) The Minister had agreed to help speed up the process of decision making and ensure no breakdown of communications between The Post Office, DTI, his private office and the Treasury.
- (d) The Minister had accepted the proposed new Board structure but was keen in the next twelve months to appoint new Non-Executive Members with three year contracts with a right of renewal subject to both sides so agreeing. The search for new Non-Executive Members would continue with shorter timescales. Despite the Chairman's wish for continuity, the Minister was clear that he wanted a fresh contribution from new

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Members, although this was no reflection on the contribution of the present Members.

- (e) In his role as Chairman of Legal and General Sir Christopher Harding had a possible conflict of interest with POCL's planned new financial services products. In view of this he would consider whether he could remain a Member beyond June 1998.
- (f) Other members felt that the Minister's handling of the issue could cause damage to the reputation of individuals and the Board as a whole. Peter Allen would consider whether he wished to remain a Member of the Board beyond June.
- (g) A meeting with Alan Johnson MP had provided insights into the union and the Government review process.
- (h) The Remuneration Committee was due to meet Ian McCartney in June to discuss contractual issues related to Executive Members. The Chairman would consider attending.

ACTIONS

The Chairman

To convey to the Minister the Board's disappointment over the decision concerning the Non-Executives

Sir Christopher Harding
& Peter Allen

To let the Chairman have their considered view on their own position in the light of the Minister's decision

The Chairman

To circulate the specification for Non-Executive Directors

The Chairman

To consider attending the Remuneration Committee's meeting with Ian McCartney in June

CHIEF EXECUTIVE'S
REPORT
JOHN ROBERTS
(POB(98)33)

PO98/53

- (i) Financial Performance. The outturn results reflected a very strong performance with all financial targets being exceeded. The results would be yet another record with no increases in inland letter prices.
- (ii) Government Review. All groups were now operating, albeit slowly, and consultants were being appointed. The DTI were planning to make an interim report at the end of May with the main report and recommendations in July and Ministerial decisions in the Autumn.

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(iii) Horizon

- (a) At its April meeting, the Board had concluded that its interests would not be served by taking immediate action against ICL for contractual failures.
- (b) The Treasury study headed by Adrian Montague of the PFI Unit was now under way.
- (c) Project slippage now meant that a key milestone date of 5 October could not be achieved with consequences for the whole project timetable.
- (d) John Roberts and Stuart Sweetman had met Frank Field, the Social Services Minister now responsible for the project for DSS, on 5 May. He was thought to consider Horizon an obstacle to his long term strategy for delivering social security benefits. Efforts had been made to persuade him it was, instead, a route towards his strategy.
- (e) Frank Field invited The Post Office to join the DSS in issuing a Cure Notice to ICL to take necessary corrective action to meet the terms of the contract within 13 weeks. He also asked that the matter be put before The Post Office Board.
- (f) Legal advice from The Post Office Solicitor and from Slaughter and May was that The Post Office was already protected legally and that it would not be in its interest to issue a Cure Notice at this stage; if necessary, this would best be done following the Treasury Review.
- (g) Although the contract was signed jointly by DSS and POCL, the former could act unilaterally, albeit this would create presentational difficulties for them in explaining why they were acting unilaterally.
- (h) Ian McCartney had met Frank Field on 11 May and had withdrawn DTI objections to issuing the Cure Notice. It was also understood that Treasury officials had taken a similar position.
- (i) Taking fully into account:
 - the latest project slippage
 - the likely consequences for ICL
 - the absence, at this stage, of an alternative POCL strategy

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- the unequivocal legal advice to defer any action until the Treasury Review was complete

The Board unanimously confirmed its view that The Post Office should not join with DSS in issuing a 13 week Cure Notice against ICL.

ACTIONS

John Roberts

To convey the Board's position to DTI, explaining the reasons

Stuart Sweetman

To circulate the advice on Horizon from Slaughter and May to Members

The Secretary

To produce a preliminary note on the Board's discussion on Horizon for the Chairman and John Roberts

- (iv) Project Gloria. The Minister had reacted favourably to the project and there were signs that it would not be opposed. A non-binding offer of \$34.5m had been put in for Gloria. A July conclusion was expected.
- (v) Senior Managers' Conference. This year the number of managers involved had doubled to about 600 managers across The Post Office with four separate sessions. The theme was preparing for competition and its implications. The format this year included a case study with interactive audience participation.
- (vi) Industrial Relations. Derek Hodgson had been elected as General Secretary of the CWU and his deputy would be elected in August. Meetings with executives had commenced with deals completed on delivery and the conduct code and a productivity deal was due in the summer. The Post Office had committed to being primarily a full time employer, to a 5 day week for the majority of employees and had given assurances on delivery weights. The agreements signed or in prospect went a fair way to meeting the objectives of the Employee Agenda. It remained to be seen whether they would be fully implemented at local level.
- (vii) Monopoly. TNT & Racer had been breaking the monopoly. The DTI had been alerted and legal action would be threatened before the next Board meeting.
- (viii) LEK. A report would be considered at the July Board meeting covering tariff implications, transfer pricing, collection and delivery, surplus staff, etc. Cross business teams had approached this in a constructive

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way. 250 general administrative staff had already been transferred from Parcelforce to Royal Mail.

- (viii) Lottery. Dick Wheelhouse had been appointed Project Director with an immediate priority to determine appropriate timescales.

ACTION

Stuart Sweetman

To determine timescales for the lottery project before the June Board meeting

The Chairman and the Non-Executive Directors formally congratulated John Roberts and his team on the outstanding results achieved in 1997-98

FINANCIAL OVERVIEW
RICHARD CLOSE

PO98/54

- (i) Provisional profit for 1997-98 now stood at:
 - Royal Mail £547m
 - POCL £33m
 - Parcelforce (£14m)
 - SSL £5m
- (ii) The group results for 1997/98 showed a substantial record profit and capital expenditure was also the highest ever reflecting greater rigour in control, particularly on accommodation expenditure. The EFL expected outturn was £338m with a £22-25m surplus to rollover.
- (iii) The Parcelforce full year target of a £15m loss had been reduced to £14m. The 1998-99 Parcelforce budgets based on month eight contained balanced risks and opportunities.
- (iv) Counters' had come in at the full year profit forecast of £33m. The uncertainties surrounding Horizon would need very careful management in 1998-99.
- (v) SSL produced a profit of £5m against a budget of £9m. The budget had assumed a major upturn from the half year with increasing telebusiness income. The upturn occurred, but at a much lower level than expected.
- (vi) Tribute was paid to the finance teams as books were closed exactly to forecast within 10 days.

It was agreed that Richard Close would report to DTI the forecast outturns at (i) above and would seek agreement to a Parcelforce target for 1998-99 of £(9m) against a budget of £(12m), with an assumption that

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the target would include some benefit from the continued pension holiday.

THE POST OFFICE
REVIEW
JOHN ROBERTS
(POB(98)34)

PO98/55

- (i) a formal paper would be submitted to DTI at the end of May as the Board's response to the Government Review
- (ii) the 3 key issues for the Board were:
 - (a) whether to continue to support the IPOC model
 - (b) its position on a minority share sale of up to 49%.
 - (c) whether the conclusions of the Review would apply to the business as a whole
- (iii) an IPOC would require primary legislation so there would need to be interim changes before it could be enacted
- (iv) the freedoms must be delivered and be based on what the business needs
- (v) if the deadline for the Autumn 1999 legislative programme were missed the following year would be uncomfortably close to the next likely date of the General Election
- (vi) given the sensitivity of the 49% share sale option, the Board would not wish to adopt a public stance in its favour at this stage but Members felt that this variant on the IPOC would have a number of benefits:
 - (a) 'city' disciplines would be preferable to Government controls
 - (b) interference was likely to continue without the pressure
 - (c) the Treasury were prepared to agree significant financial freedoms if linked to a share sale
- (vii) Schrodgers would continue as lead financial advisers, at least until the end of the Review

It was agreed that

- the preferred option for obtaining commercial freedom would be through a 49% IPOC.
- this line would be reflected in the formal response to Government with no other communications on the Board's position at this stage

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- commercial freedoms should apply across the whole Post Office as one entity

PRINCESS ROYAL
DISTRIBUTION CENTRE
(PRDC)
RICHARD DYKES
(POB(98)35)

PO98/56

- (i) 30% of mail passes through PRDC. It has been subject to disruption by a relatively small number of trouble makers
- (ii) action to tackle the problem carried a risk of escalation throughout London which would be difficult for the Union leadership. There was, therefore, a good prospect of containing the situation within PRDC. The union leaders should be led towards a fair and equitable solution.
- (iii) lessons learnt from PRDC had been well documented and were relevant to Mount Pleasant and the international hub
- (iv) in pursuing the actions set out in the paper, fairness and consistency would need to be demonstrable. Firm action would demonstrate that employees could not take unofficial industrial action with impunity. The existing EVR provisions and package would be used as necessary.

The Board agreed the proposed approach in the paper and noted the risks in the recommended process for tackling strike action

CORPORATE
GOVERNANCE
THE SECRETARY
(POB(98)36x)

PO98/57

Noted

ESTABLISHMENT OF
A COMPANY IN
GREECE
THE SECRETARY
(POB(98)37x)

PO98/58

Agreed

ANNUAL REPORT &
ACCOUNTS
APPROVAL PROCEDURE
RICHARD CLOSE
(POB(98)38x)

PO98/59

Noted. Details would be passed to Government two days before the announcement

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POWER TO
AUTHENTICATE THE
POST OFFICE SEAL
THE SECRETARY
(POB(98)39x)

PO98/60

Agreed

APPOINTMENT OF
DIRECTORS TO
SUBSIDIARIES
THE SECRETARY
(POB(98)40x)

PO98/61

Agreed

ANY OTHER BUSINESS

PO98/62

The Chairman would be taking over as Chairman of SHL PLC, but resigning from its Audit and Remuneration committees, so there would be no additional demands on his time.

DATE OF NEXT
MEETING

PO98/63

9 June at 148 Old Street