

RESTRICTED - POLICY

Reference RWW/1/04; 1/14

- ***[If pressed on delay]*** No delay. The interdepartmental review team continues to work hard towards its report, and we aim to announce our proposals in the Autumn.
- ***[If pressed on alleged “privatisation”]*** The terms of reference are unequivocal: the Post Office will remain in the public sector and will continue to provide a universal postal service at a uniform tariff and a nation-wide network of post offices.
- ***[If pressed on future of individual post offices or on size of network]*** Neither the Government or the Post Office can guarantee the future of individual post offices, the vast majority of which are privately owned. But the Government is fully committed to the maintenance of a nation-wide network of post offices. Part of the strength of the Post Office lies in its ability to reach customers in all corners of the UK. Review considering ways in which the Government can help the Post Office to sustain a nationwide network.
- ***[If pressed on Crown conversions]*** Policy on conversion of Crown post offices is being considered in the context of the Review. Hope that, as suggested by Ian McCartney, the Union is discussing with Post Office Management the possibility of a common approach to the conversion issue.

Benefit payment and post office automation programme/post office network

- Fully understand the importance to Post Office Counters of acquiring a modern automated on-line computer platform.
- Current plans still provide for all post offices to be automated by the end of 2000.
- Therefore very much hope that the project can be implemented successfully. Not surprising that the project, which is a major PFI project, has been reviewed by departments given its size and importance and the delays which have occurred.
- The Government remains committed to maintenance of a nationwide network of post offices.

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**SECRETARY OF STATE'S MEETING WITH COMMUNICATION WORKERS UNION
(3 SEPTEMBER 1998)**

LINES TO TAKE

Post Office review

- Pleased that CWU are playing an active part in the review - grateful for their input. Have noted your latest summary [*attached - annex A*]¹ of the issues that you have sent to me and (many) others.
- Work very much still in progress. Decisions will not be taken until later this year. Indeed, we (Ministers) are not due to see the completed work of the Review until next month.
- Open minded about options. But we must find the best public sector option for meeting the needs of the Post Office for greater commercial freedom to meet the challenges of the future, and to enable the Post Office to meet the needs of all users. Cannot reach conclusions before seeing the report. This is not a matter of dogma. We need to consider all the options carefully so as to establish the best possible future for an innovative, competitive and successful Post Office in the public sector, to the benefit of its customers and the UK.
- It remains our objective to make announcements in the Autumn. Conscious of the need to minimise uncertainty but must also ensure that we are not rushed to reach conclusions on these vitally important issues.
- Vital that the process is not derailed. Speculative public debate now would be counter productive.

¹ There is a factual error in the document - the level of the monopoly will reduce early next year to 350 grams (92p under the current tariff) not the 88p mention by the CWU - we have pointed this out to the CWU, and there is no need to mention it.

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BACKGROUND**POST OFFICE REVIEW**

1. On 16 May 1997 the Government announced a review of the options for implementing the manifesto commitment to grant the Post Office greater commercial freedom. The announcement also implemented the public commitment in opposition to suspend the programme of Crown Office conversions pending an open review of the policy. The first phase of the Review consisted of full and open consultation with interested parties followed by analysis and identification of the key issues. This led to discussion with the Prime Minister and Chancellor in February and March this year, and agreement to the Post Office remaining in the public sector and to the terms of reference for the second phase of the review. These were announced to Parliament on 6 April by Mrs Beckett *[attached - annex B]*.

2. Four working groups are working in parallel to cover the necessary ground to a tight timetable, feeding in to an interdepartmental review Steering Group, chaired by the DTI (Martyn Baker) with Treasury and No 10 Policy Unit (Geoffrey Norris) as well as DTI membership, which will report to Ministers at end-September. All working groups have senior Post Office representation, as well as members from interested OGDs. They have heard the views of the unions, POUNC (the Post Office Users National Council) and the National Federation of Sub-Postmasters. Other interested parties have submitted further comments in this second phase of the review.

Union involvement in the review

3. Mr McCartney saw the unions (CWU, CMA) on 6 April to give notice of the announcement, and let them know of the public sector structural options that were to be considered. He undertook that the unions would be consulted during the work on the review. Since then the CWU, which has taken the lead on the unions' behalf, has been involved in the review process. They have put in a paper adding to earlier contributions on how an independent publicly owned company/corporation might work. They have made presentations to the Review Working Group on Post Office Counters and to the combined Structures and Regulatory Working Groups (Geoffrey Norris from No 10 Policy Unit attending).

4. Both the CWU and the CMA met the consultants (KPMG and Dresdner Kleinwort Benson) on 2 July to discuss their emerging conclusions on how the four public sector options might work. Derek Hodgson met Mrs Beckett and Ian McCartney during July.

5. The unions are particularly concerned about the possible future structure of the Post Office (especially that there should be no sale of shares) and the future of the counters network.

6. On structures, their discussion with the review team show that the CWU:

- agree with the need for greater commercial freedom, including no "second guessing" by Ministers/civil servants

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- advocate an 100% Government owned Independent Publicly Owned Company (IPOC) with a Parliamentary charter (an approach endorsed by TISC and others).
- want a proper dividend policy, not an investment-stifling external financing limit (EFL), and for the Post Office to be able to borrow outside PSBR constraints;
- want freedom for the Post Office to negotiate pay deals with no public sector pay constraints applying.
- oppose the trust and minority share sale options - expressing surprise that the review is examining the options when there is a good deal of consensus around a fairly detailed IPOC model.
- oppose liberalisation of the Post Office monopoly.

7. In relation to Post Office Counters, the CWU

- support the maintenance of Crown Offices (and opposed further conversions, but have accepted Mr McCartney's advice to discuss with Post Office management a possible acceptable mix of Crown and franchised Post Offices);
- want an increasing role for the counters' network - looking for new products and services; and
- strongly support increased automation.

HORIZON PROJECT

Union concern

8. Derek Hodgson has had frank discussions with Margaret Beckett and Ian McCartney about the project. He is aware of the concerns of the DSS who are suffering financial losses as a result of delays to the project and who would now prefer to migrate benefit payments as quickly as possible to automated credit transfer (ACT) directly into bank accounts. This would have substantial adverse implications for Post Office Counters' income (more than one third of which comes from the Benefits Agency) and therefore for the viability of the network of post offices. Hence Mr Hodgson's concern about the project's future.

History

9. The Post Office automation project is a flagship PFI project being jointly led by Post Office Counters Ltd and DSS/Benefits Agency (BA). It involves the automation of benefits payments at post offices. The project which is worth in excess of £1 billion has two principal aims: