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To: ci: PS/Mr McCartney
 PS/Sir M Scholar
 MR BAKER Mr Macdonald
 CGBPS Ms Britton CGBPS
 Mr Sibbick CGBPS
 From: Mr Brebner CGBPS
 Mr Corry SpAd

CHRISTOPHER WOOLARD
 PS/Secretary of State
 Room **GRO**
 1 Victoria Street

GRO

17 June 1999

21-6
 1. Mr. Faull
 2. Mr. Foye (o/s)
 3. Mr. Churley

MEETING WITH THE POST OFFICE: 10 JUNE 1999

You were present along with Mr McCartney, Ms Britton, Mr Sibbick and I when Neville Bain, John Roberts and the non-executive directors of the Post Office called on the Secretary of State.

Discussion with non-executives

The first part of the meeting centred on a discussion of the Horizon between the Secretary of State and the non-executive directors of the PO (John Lloyd, Rosemary Thorne and Miles Templeman; Mike Kinsky could not attend).

Dr Bain told the Secretary of State that the board had a unanimous view. They wanted to go forward in a positive way and put the Horizon project on a firm and positive footing. However, they had concerns about the process and felt that they had been excluded at times and that the implications for the PO had not been taken on board. Under B3, POCL would go from a profit of around £35m a year to an average annual loss of £240m. But despite these problems, the PO would work hard with ICL to find something they could all support.

Dr Bain continued that he wanted to stress the fiduciary duties of the board. There was also an interplay with the critical points outstanding on the White Paper. He stressed that the Board were all pretty new. They were not being deliberately awkward, but exercising commercial judgement.

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Ms Thorne and Mr Templeman added that they were excited at the prospect of working in a commercial board. But at the first hurdle, their commercial judgement was second-guessed. It could be that the Horizon "hit" would make sense in a wider context. Dr Bain added that it would be huge blow to the PO to get rolled on the White Paper too.

The Secretary of State said that in corporate governance terms the PO was in an interim period where it was moving to a more modern role. Of course, the PO played an important social role. The maintenance of a network posed an immediate conflict with the commercial role. The WP would spell out how this role could be built in. In the early days of the transition, issues like Horizon had the potential to occur, although the Secretary of State did not foresee an issue of this size again. As we moved forward we needed to develop structures at DTI to handle the new relationship.

Mr Templeman commented that if there was a clear social goal, we needed to have a way of achieving it. Mr McCartney commented that this was a period where we had to clarify the PO's objectives with the whole of Government. All future work would really flow from the platform. The Secretary of State agreed that we should identify the key OGDs the PO wanted as their clients. Mr McCartney said the PO needed a strategic approach. They needed to combat the perception in Whitehall that the PO took its client Departments for granted.

The Secretary of State thanked the Board once again for their help in a difficult weekend. Bain stressed he had a good team. The non-executives then departed.

Meeting with Bain and Roberts on the White Paper

Dr Bain said he thought there were 5 issues of key importance to the Post Office.

i) Financial Targets - the regulator should take into account the targets the government had set the PO when looking at pricing.

The Secretary of State responded that the regulator would be constrained by the strategic plan. You added that who went first in this process was a critical issue. The Secretary of State reiterated that there would be a strategic plan and the regulator would have regard to it.

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ii) The Treasury were attempting to introduce the words “and pose no undue burdens on the taxpayer” into the test of commercially robust for future PO investment.

Mr Roberts recalled the big issue there had been around commercially robust at the time of Peter Mandelson’s statement on 7 December. There was big issue for the PO if the Treasury tried to pull it back. The Secretary of State acknowledged there would be some difficult issues that would not be dealt with directly in the WP.

iii) Dr Bain noted his concern that a monopoly reduction ahead of Europe represented a weakening of value for the taxpayer. Any reduction of the monopoly to 50p had to be held in real terms.

The Secretary of State said that the monopoly would be reduced and probably to 50p. His personal view was to go for April 2000. This was his personal advice to the Prime Minister. Dr Bain said this was judgement call. He was “disappointed, but not rabid”. Mr Roberts urged the Secretary of State to look at the real pricing issue.

iv) Dr Bain said the PO wanted year end flexibility on borrowing of around £20m

v) They were also looking for some flexibility on pay

The Secretary of State said that we were broadly happy with the PO approach on this, although we were still waiting for a response from the Treasury.

Mr Roberts asked if the planned publication of the WP would now be 1 July. The Secretary of State said that this was the case. Mr Roberts said that they would try and move their annual report meeting to 14 July.

Finally, Mr McCartney gave a short report on the first meeting of the Horizon working group. There would be a series of meetings with ICL, BA, a timetable for implementation and discussions with OGDs. Mr Roberts said that they had managed to deliver the board before. They were working hard towards the 19 July and had already met ICL. The select committee hearing would be awkward, but the PO would be positive and forward looking.

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