

In Strictest Confidence

**POB(00)1st
PO00/1 to 11**

POST OFFICE BOARD

**Minutes of the meeting held at 148 Old Street
on 11 January 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
Jonathan Evans	Secretary
Scott Childes	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: Robert Bishopp, Director Regulation, for PO00/6
Duncan Hine, Director Technology and Information Systems, for PO00/7
Graham Cater, Director Group Personnel, for PO00/8

APOLOGIES Miles Templeman was unable to attend

SIR CHRISTOPHER HARDING It was with deep regret that the Board noted the untimely death of Sir Christopher Harding, who had served as a Board Member from 1993 until 1998. The Chairman, on behalf of the Board, had sent a letter of condolence to Lady Harding

SCOTT CHILDES The Board paid tribute to the major contribution to the efficient running of the Board made by Scott Childes over the past 10 years. Scott was soon to move to work with the Regulation Department on handling the Postal Services Bill, and the Board wished him well for the future

MINUTES OF PREVIOUS MEETING PO00/1
The Board approved the minutes and separate record of proceedings of its meeting of 30 November 1999.

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**MATTERS ARISING
POB(00)1**

PO00/2

- (i) The Board noted the matters arising from its meeting held on 30 November 1999. No response had been received from Ernst & Young to Rosemary Thorne and Richard Close's letter with regard to the reporting of exceptional items in the half year accounts.
- (ii) The PIU Study was due to report in March 2000.

CHAIRMAN'S BUSINESS

PO00/03

- (i) Alan Johnson MP, the Minister with responsibility for The Post Office, was attending for the final thirty minutes of the meeting. The Chairman intended to raise the following issues with him:
 - Postal Services Bill and timescale
 - Industrial relations and WAND
 - Horizon and the PIU

**CHIEF EXECUTIVE'S
REPORT POB(00)2**

PO00/04

- (i) Performance. Income pressure in Royal Mail and profit pressure in Parcelforce made achievement of the £350m profit target difficult.
- (ii) Envision. The performance of Envision, who administered the BBC licensing contract, was of concern with the forecast number of licences sold not matching business plan expectations.
- (iii) Given the current poor performance The Board called for a review of future prospects for Envision at the March meeting;
- (iv) Industrial Relations. A revised agreement on the 'Way Forward' had been agreed with the CWU Executive Committee and a ballot of CWU members would be held between 19 January and 7 February.
- (v) The revised agreement included a higher level of basic pay, the retention of a Drivers' allowance, enhanced pay rates for Scheduled Attendance and the first 10 hours of overtime Monday to Saturday.
- (vi) The importance of the deal had been stressed to the CWU Executive and a joint communications campaign would re-emphasise this to CWU members. Should the

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deal be rejected further discussions would not be held and alternative ways of achieving improvements would have to be sought.

Noted further that

- (vii) South West Trains (SWT) had taken the unusual step of implementing a pay award, with the agreement of ASLEF and the TUC, although this was after the members themselves had rejected the deal. This had proved successful for SWT and restored the credibility of the union in the eyes of its members.
- (viii) It was questionable whether a similar approach could work with an agreement that had many separate elements and required the commitment of employees to be successful. An alternative approach was implementation on a regional basis which would isolate those areas which rejected the deal. The Board would need to consider regional implementation before it was progressed.
- (ix) Parcelforce had still to conclude its September 1999 pay award with CWU employees. The vulnerable financial position and commercial difficulties facing the business would be stressed to the CWU Executive Committee although encouragingly both the General Secretary and his Deputy appeared to recognise the constraints within which Parcelforce had to operate and were willing to consider innovative ways of working.
- (x) Industrial disruption over Christmas and the New Year had badly affected customers in Fulham and Putney. Putney had for a long period of time been a problem area with the workforce being particularly disruptive and the dispute had arisen as they'd refused to work rostered Scheduled Attendances. Against the wishes of staff additional resource was to be introduced into the office and local management strengthened. The dispute at Fulham had been over accommodation issues and management assurances to deal with employees issues had resulted in staff returning to work. It was important that these reassurances were acted upon.
- (xi) Christmas. Royal Mail traffic had increased by 5.5% over the previous year but disappointingly stamped and metered mail had only increased by 2%. Encouragingly, staff hours had only increased by 0.3% over the same period as last year. However the overall position fell short of forecast;

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- (xii) Parcelforce had achieved growth of 14% over the previous year and "next day" volumes had increased by 30%. The business had been badly hit by the flu epidemic with sick absence currently running at 25%.
- (xiii) Counters' quality of service had been disappointing at 90.8% against a target of 95%. Income on sales had held up well.
- (xiv) International. Opportunities with Fedex had not been progressed and appeared unlikely to be developed further. UPS had signalled their continued interest in developing a dialogue and this would be progressed.
- (xv) PIU. The PIU Study team were aware of the issues around the Postal Services Bill and the relationship of their work on the network. A meeting with Mo Mowlem, Minister at the Cabinet Office, was being arranged.
- (xvi) Liberalisation. The European Commission was seeking to reach agreement on increased liberalisation through a reduction in the letter weight step. Various scenarios for achieving a reduction to 100grams had been put forward. The Post office was working closely with La Poste to try and limit any reduction to 150 grams.
- (xvii) Year 2000. With the exception of some minor difficulties, all systems had continued to work correctly and this reflected the enormous amount of work and effort that had been put into the Y2K project, the cost of which had been in the region of £80 - 85m.
- (xviii) Royal Mail Prices. There had been no Government response to Royal Mail's pricing proposals.

Action

Stuart Sweetman
Richard Close

Review the performance of
SSL/Envision at the next Board meeting.

Richard Dykes

Consider, in the event of the Way Forward agreement being rejected by CWU Members, the possibility of implementing the proposals with the support of the CWU Executive.

FINANCIAL OVERVIEW

PO00/05

(i)

Provisional results for December, which had not been reviewed by the Executive, were:

- Royal Mail £32m

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- POCL £22m (excluding Horizon)
- Parcelforce £5m (including Special delivery)
- (ii) Royal Mail's December result was £20m worse than budget as a result of reduced income, increased staff and advertising costs.
- (iii) A backlog of intra business invoices, cumulatively £37m, had been identified and was being investigated.
- (iv) The full year profit/loss forecasts were:
 - Royal Mail £421m
 - POCL £25m (excluding Horizon)
 - Parcelforce £(8)m (including special delivery)
- (v) Royal Mail's risks and opportunities remained balanced between £10m and £20m, although December's expenditure result would be of concern should it be repeated in January.
- (vi) Parcelforce's £5m profit in December was the first profitable result this year and only £1m below budget.
- (vii) The financial impact of the strike at the London Distribution Centre was estimated to have cost £1.3m but was likely to outturn at £2m taking the full year loss to £10m. It would be unclear until the end of January how many contracts would not be renewed as a result of the strike.
- (viii) The Coventry Hub would take traffic from London once it was opened in May. Some 200 jobs would be removed from London operations with some employees leaving and others being redeployed in Royal Mail.
- (ix) There had been an improvement in productivity over the past two months.
- (x) A comparison of current debt compared with pre SAP debt showed that performance had improved considerably and was almost back to pre SAP levels.
- (xi) Counters, excluding Horizon, continued to perform well and on current trends a full year profit of £32.5m was possible.
- (xii) As stated in PO00/04(ii) above, the underlying performance of SSL (Customer Management) was disappointing with a full year loss of £(6)m forecast.

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- (xiii) Agreed that the following full year Group profit forecast be released to DTI:

- £340m (excluding Horizon)

STATE OF POST OFFICE PO00/6
READINESS
FOR REGULATION
POB(00)3

- (i) To a great extent the form and nature of regulation were dependent upon the content of the Postal Services Bill, the core of which was due to be drafted by 20 January to go before the Legislation Committee on 25 January. First reading was scheduled for 28 January and Royal Assent by the end of July.
- (ii) Parliamentary Counsel had already raised concerns over the viability of the timetable and it was therefore to be considered at risk. The Post Office had provided DTI with every assistance in preparing the Bill and had no responsibility for any delay.
- (iii) The principal issues around the Bill were:
- the disposal/sale of shares in Post Office plc, in a way in which proper commercial freedoms could be granted but which honoured the public statement by the Secretary of State that this would only happen through primary legislation.
 - clarity in the accountabilities for setting financial targets between the Secretary of State and Regulator.
 - the criteria for borrowing for growth investments;
 - and, the report of the PIU study and in particular Counters access criteria.
- (iv) A number of other key issues had still to be resolved, including the mechanism for changing the monopoly, the USO obligations to be imposed on other licence holders, the scope of regulation, penalties for service performance, information gathering powers of PSC and CCPS, powers, reconstruction of the balance sheet and the consolidation of legislation.

noted further that

- (v) It was important to establish clearly before a regulator

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was appointed those areas for which regulation was appropriate. It would assist Non-Executive Members to see a simple summary sheet which highlighted those areas which would be subject to regulatory control.

- (vi) It would be prudent to review the way in which the property portfolio was currently managed and how this compared with other regulated companies.
- (vii) It was estimated that on current levels of performance The Post Office would have to pay penalties of between £25m - £30m. It would be important to ensure that the regulator had an appreciation of what constituted a reasonable level of performance and through improved information educate and advise customers on what, in terms of service, was actually possible.
- (viii) Thanked Robert Bishopp for his helpful presentation and informative report.

Action

- Jerry Cope (i) Circulate a summary of the activities of The Post office that would be subject to regulatory control
- Jerry Cope (ii) Review how the treatment of The Post Office's property
Richard Close portfolio could be optimised within a regulated environment.

**TECHNOLOGY &
INFORMATION SYSTEMS
IN THE POST OFFICE
POB(00)4**

PO00/7

- (i) Across The Post Office the number of information systems being deployed was considerable with individual businesses developing their own systems with little technical commonality. For example, within the finance function nine separate systems existed.
- (ii) The majority of Post Office systems were:
 - functional rather than process based applications;
 - duplicated functionality across business applications;
 - created many point solutions;
 - reactive rather than proactive with regard to business needs; and
 - lacked global visibility to world class suppliers and customers.

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- (iii) The current situation meant it was costly for Business Units to maintain and upgrade individual instances of SAP, made exploitation of investment in the technical infrastructure difficult and worked against the integration of systems and exploitation of information.
- (iv) The Post Office Enterprise Model was fundamental to the development of The Post Office IS Strategy, providing as it did a blueprint for the integration of information systems across The Post Office. An essential element of the strategy was the delivery of core back office functionality, such as finance and HR systems, which when established would enable the delivery of a wider set of business applications. However, the ultimate requirement was to have a system which provided customers with value, performance and timeliness.
- (v) The strategy comprised of these design principles:
- IS systems should be organisationally independent;
 - processes should be harmonised;
 - generic access channels should be developed for customers, for use by all businesses (SPICE);
 - industry standard software would be used wherever possible;
 - the overall architecture should reduce the complexity of systems interfaces;
 - information about key business entities to be managed as a group wide asset; and
 - operate a consistent information security policy.
- noted further that
- (vi) The Post Office used 50,000 computers and had one of the biggest mainframes in the UK;
- (vii) Outsourcing had previously been contemplated, but was not considered appropriate. This mirrored the approach of a number of major companies. Where appropriate a number of relationships with external suppliers, such as Fi, were being developed.
- (viii) It was important that as The Post Office developed an business strategy that it was compatible with that of it

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main IS strategy.

- (ix) Seeking work for third party customers was not something The Post Office was looking to develop.
- (x) Thanked Duncan Hine for his informative report and presentation.

**MANAGEMENT
DEVELOPMENT
FRAMEWORK
POB(00)5**

PO00/8

- (i) The development for senior managers of The Post Office below Executive Board level was overseen through the Group Centre management development framework. The top 150 managers were know as 'Top Y', comprising the Managing Directors, their direct reports and direct reports to other Group Centre Managing Directors.
- (ii) The framework provided an effective and coherent process for filling Business Unit Managing Director roles and ensured that managers with the right capabilities were available at the right time. It also aimed to create an environment which attracted and retained talented and committed managers.
- (iii) The framework was comprised of five elements:
 - a succession planning process overseen by the Executive Board;
 - an appraisal and development system;
 - a development architecture;
 - an approach to managers of tomorrow; and
 - reward and remuneration.
- (iv) Currently The Post Office was only just keeping pace with what was required and had a base of managers who were no longer suited to the business' new commercial and strategic role. Remuneration levels and the lack of any share schemes deterred young external high calibre recruits although pension benefits were in certain instances an attractive feature. Phantom share schemes and improved pension packages were being considered.

noted further that

- (v) Recruiting high quality managers nearing the end of their careers could in certain circumstances provide a

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good avenue of resource.

- (vi) Of the top 150 managers only a handful did not have named successors although in marketing and change management resource was thin.
- (vii) The performance of senior managers against objectives and the values of the organisation were linked to pay and bonus awards.
- (viii) Although the number of female managers was increasing it was disappointing that the number of managers with ethnic minority background was low.
- (ix) A scheme to recruit 4 to 6 young 'high flyers' each year had proved successful with a great deal of time and effort being spent on a small number of people with quickly realisable, very high potential. These individuals were university educated and usually aged in their late twenties. The programme had been running for three and a half years and the first four managers were now ready to enter 'Top Y'.
- (x) The Board acknowledged the value of a scheme such as this and welcomed its continued success.
- (xi) Members of the Remuneration Committee would welcome the opportunity to review the succession plans for the top 30 senior managers in The Post Office.
- (xii) Thanked Graham Cater for his informative report.

Action
Jerry Cope

Circulate to non-executives an updated succession plan covering the top 30 Post Office managers/posts.

**AN UPDATE ON THE
HORIZON PROGRAMME
POB(00)7x**

PO00/9

- (i) The rollout of Horizon was due to recommence on 24 January. A great deal of work had been undertaken to rectify difficulties identified in three areas:
 - system stability;
 - accounting integrity; and
 - the provision of support to offices

Although as yet uncertain, it was anticipated that these issues would not prevent rollout recommencing.

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- (ii) Financial performance was being monitored against the revised budget.
- (iii) Given that the programme was expected to recommence rollout, it would be helpful for the Board to understand what marketing opportunities were now being considered.

Action
Stuart Sweetman

The March Board to review the current status of marketing for the programme, together with an update of the financial position of the programme.

COMPETITIVE OVERHEAD PO00/10
STRUCTURE STRATEGIC
PROGRAMME POB(00)8x

- (i) The Board noted the report and in particular that net recurring benefits were forecast to be £365m by 2001/02.

DATE OF NEXT MEETING PO00/11

The next meeting was scheduled for 14 March 2000.