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CROWN OFFICE CONVERSIONS

Some 600 of the network of more than 19,000 post offices are directly run and staffed by the Post Office, and are known as Crown Offices. All the rest are operated under a variety of franchise or agency agreements, typically in conjunction with a private sector business such as a village shop, a corner newsagent or, more recently, within a supermarket. The Post Office business is valued by the franchisees for the "footfall" it brings to the shop, as well as for the income from conducting Post Office business. Because of this, and the benefits of shared overheads, the Post Office claims that business conducted through agency offices costs it around 30% less than similar business conducted through the Crown Offices.

Since 1989 the Post Office has had a programme of converting Crown Offices to agency status, and the number of Crown Offices has fallen by about 800 in that period. The staff concerned have either been transferred to other offices or have accepted voluntary severance. There have been no compulsory redundancies. Such conversions, once established, are often popular with customers because of longer opening hours, better location, and the convenience of other products in the shop. However at the time of the conversion there is inevitably considerable local resistance and hostility, and, following a pre-election pledge given to the CWU, the Government announced on 16 May 1997 - in parallel with its launch ot the Post Office review - that it had asked the Post Office to suspend the conversion programme pending an open review.

The Post Office has claimed that the moratorium, if continued, will cost it some £25 million in savings foregone over a 5 year period (assuming a continuing conversion rate of some 50 Crown Offices per year), and will involve additional expenditure of around £100 million over the same period to modernise a stock of increasingly dilapidated Crown Offices which they had expected to shed.

In our subsequent discussions with the Post Office, they have accepted the case for retaining a core of directly operated offices as flagship offices, to give them hands-on experience, for benchmarking, for test-marketing under tightly controlled conditions, for developing training programmes and so on. They have however been unable to give us any indication of how large that core should be, how it should be spread geographically, or how they should plan their migration strategy. We have therefore asked them, in full consultation with the Post Office unions, to develop a strategy for moving forward, setting out clearly the landmarks and criteria. We have asked them to complete this work by the end of September.

BOARD APPOINTMENTS

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Annex A sets out the current composition and key terms of appointment of the Post Office Board. Dr Neville Bain was appointed as Chairman earlier this year, and Jerry Cope, responsible for business development strategy, industrial relations and personnel policy was recently reappointed for a further two year term. We are in negotiation with the Treasury over the reappointment of the Finance Director, Richard Close (there is a separate submission currently with you on this), and shall shortly need to write to them about a renewed term for the Chief Executive, John Roberts. Three non-executive directors whose contracts expire this year have not had them renewed. The first of these vacancies has been filled by the recent appointment of Mike Kinski, the Managing Director of Stagecoach, and the process to recruit and appoint two further non-executives to bring a range of skills and experience to the Board is nearing completion. An earlier proposal by the Chairman to appoint the Managing Directors of the three main Post Office businesses to the Board has, at his request, been put on ice for the time being.

The position as described above represents essentially a holding strategy until the results of the Post Office review are known, when the issue of Board structure and composition will clearly need to be revisited.

HORIZON

The background to this Benefits Agency/Post Office Counters automation programme was set out in my submission and briefing for yesterday's meeting with the Chief Secretary and the Secretary of State for Social Security. As a result of that meeting we shall be preparing urgently a paper setting out what POCL expects its role and position in the marketplace to be in ten years from now, when it will no longer have the support of an income stream from the Benefits Agency; what kind of technology it will need to fulfill that role and how that will be financed; what adaptions to the size and shape of the network of post offices POCL expects to make; and - to the extent that the Government will need to contribute either indirectly (by paying more for POCL's services than it needs to) or directly (through some form of subsidy) - the social benefits that will accrue therefrom. This paper will inevitably show that the balance of advantage lies heavily in continuing with the Horizon project, particularly when the devastating effects on ICL (and on the prospects of future inward investment from Japan) of cancelling the project are taken into account.

Although the political sensitivities of decisions on Horizon before October are well understood, it is by no means certain that ICL, with a funding requirement for ongoing work on the project running at more than £8 million a month, will be content (or able) to wait that long.

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