M8.53 **SECRET**

11 NBPM AT 18/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 June 1985

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Dear Norman

NATIONAL GIROBANK

Thank you for your letter of 29 May. I agree that we should continue to aim for early privatisation of Girobank - there is nothing whatever to be gained by delay - and that sale to an individual trade purchaser (or just possibly to a consortium of trade purchasers) is the only practicable route. I see some problems in trying to make an exploratory approach to potential purchasers, along the lines you suggest, without undermining our own negotiating position. But I am content for you to proceed in that way if you consider it essential.

It goes against the grain to appoint merchant bank advisers without any competition, particularly given the attention that Parliament and the press, not to mention the PAC, pay to the costs to the taxpayer of City advice on privatisations. I fully appreciate your concern to preserve confidentiality in this case but I would have thought that you could interview two or three banks without serious risk. In any event I should be grateful if you would consult me fully before any merchant bank is actually appointed.

I agree that we now need to appoint a full-time Managing Director for Girobank and I know you will want to ensure the person selected is qualified to lead Girobank through to privatisation and wholeheartedly in favour of the route you have identified. I should be grateful if you would let me know when you have chosen your shortlist. I note what Geoffrey has said about the salary level likely to be needed to secure a suitable appointment. But the sums he has proposed would create real problems for us in relation to salaries elsewhere and I therefore think a strong case will have to be made before we can contemplate sums of this order. Perhaps we could discuss this separately in the light of the candidates you select.

Finally, officials here have taken some preliminary soundings concerning clearance through the Superannuation Fund Office and I am glad to say that we do not expect any difficulties in arranging an accelerated procedure.

I am copying this letter to the Prime Minister, to the other members of E(NI), to Norman Fowler, Patrick Mayhew and to Sir Robert Armstrong.

Yours ever
Nigel

NIGEL LAWSON

R 18/6

POST + TELS PT 9

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

22 July 1985

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1A 0AA

Copies to:

PS/Mr Pattie (ao)
PS/Lord Lucas
Sir Brian Hayes
Mr Macdonald
Mr Leeming

D Nigel.

MANAGING DIRECTOR, NATIONAL GIROBANK

In your letter of 17 June you agreed that it was desirable to appoint a full-time Managing Director for National Girobank. I now wish to propose a specific candidate.

2 The man I have in mind is Malcolm Williamson, currently Regional General Manager (London) with Barclays Bank. He was Sir Ronald Dearing's recommendation following advice from management search consultants.

3 Geoffrey Pattie met Mr Williamson and the second-choice candidate, Mr Samengo-Turner, last week and endorsed Sir Ronald's choice. I attach the career records and the search consultant's appraisal of both candidates. We believe that Mr Williamson's clarity of thought and expression, linked to his wide range of experience in retail banking, make him an attractive potential Girobank Managing Director. During his discussion with Geoffrey Pattie he made it clear that he strongly favoured the early privatisation of the bank.

4 Sir Ronald Dearing has also solicited the views of the Deputy Governor of the Bank of England. While the latter did not feel it appropriate for someone in the Bank to participate in the selection process he did confirm that the Bank would have no objection to either of the candidates.

5 I wish to tell Sir Ronald that I propose to invite Mr Williamson to become a Board Member of the Post Office and Managing Director of the Girobank. But first I need to obtain your approval to an appropriate salary level - which I judge to be (up to)

JF5AAK

£75,000 a year. I believe that this salary level is essential. Mr Williamson already earns £55,000 (plus bank bonus scheme, non-contributory pension, and low interest mortgage). He could reasonably expect further promotion within Barclays; and will be looking for some financial recompense for the greater risk inherent in the Girobank post. I am in no doubt that a salary of around £75,000 is not out of line with market requirements. Mr Samengo-Turner made it clear last week that he would require a salary of £95,000/£100,000 if he were to be attracted by the position; the Post Office's executive search consultants have consistently stressed the need to pay a salary of around £80,000 if the right candidate were to fill the post; and the Bank of England agrees with this opinion. Such a salary would of course be much higher than Sir Ronald Dearing's own salary of £63,000 (which we have proposed raising to £69,000): however, he would accept this outcome and would not expect the salary to set any kind of precedent for the next review of his own salary or those of other Board members.

6 In my view, it is very much in our interest to see that the Girobank is effectively managed so that the Government reaps the full advantage of privatisation. For this we have to be prepared to pay the market price salary. Consequently I hope you can agree that the Post Office should be authorised to open negotiations with Mr Williamson within a salary ceiling of £75,000.

7 I am copying this letter to the Prime Minister.

Yours,
Norman

NORMAN TEBBIT

JF5AAK

The National Archives

DEPARTMENT/SERIES PREM 19 PIECE/ITEM 1599 (one piece/item number)	Date and sign
Extract/Item details: Annex A to Tebbit to Lawson dated 22 July 1985	
CLOSED FOR 55 YEARS UNDER FOI EXEMPTION	3/4/2014 J. Gray
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

OD.

SECRET

File 9

TOTAL COPIES 26

COPY No. 2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

29 May 1985

~~AF~~ to se

Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Prime Minister
To note.
29/5 mb

D Nigel

PRIVATISATION OF NATIONAL GIROBANK (NGB)

As you know, I have been giving further consideration to the feasibility of privatising NGB. There are a number of difficulties associated with such a move but I have come to the conclusion that we should continue to regard NGB as a candidate for privatisation, probably in the second half of 1986/87, but that we should appoint a merchant bank to take confidential soundings of potential purchasers before we take a firm decision and announce our intention to privatise.

2 I attach a paper prepared by my officials which examines the issues and identifies potential problems. This concludes that, while problems do exist, none need be regarded as insurmountable. The central question is whether the local branch of the NCU, which is dominated by Militant Tendency, can be prevented from frustrating the privatisation of NGB. I believe that we can have a successful sale if we are careful in our handling of the situation, but that this industrial relations factor could have an impact on the way in which NGB is sold. It may be better, for example, to sell only a controlling interest initially, rather than 100% of the equity; and it may be necessary to allow some of the equity to be held by the workforce. This sort of approach may be necessary in any case to take NGB management and the Post Office board with us. The Solicitor-General has advised that, while I have existing statutory powers to direct the Post Office to sell all or part of the equity in a NGB subsidiary, it is probable that I do not have powers to specify the method, the purchaser or the price. In the light of this further consideration, I now intend to appoint a merchant bank to make confidential approaches to potential purchasers and to explore with them how far we could go in the direction of giving firm assurances to management, NGB and Counters staff - and sub-postmasters - without seriously damaging the prospects of sale.

JH2AQI

3 The attached paper identifies the establishment of a pension fund for NGB staff as critical to the timing of an eventual sale. Part of the process involves seeking clearance from the Superannuation Fund Office, which is within your sphere of influence, and the Occupational Pensions Board, which is the responsibility of Norman Fowler to whom I am copying this letter. I understand that there are precedents for seeking speedy clearance through these two bodies and I would be grateful if you and Norman could take confidential soundings to see whether that is likely to be possible in this case. I am anxious to minimise the time available (between a public announcement and an eventual sale) for opponents of privatisation to rally support for their views among the workforce.

4 Only when the merchant bank has reported and the position on the NGB Pension Fund is clear can we take a final decision. It is therefore important that confidentiality be maintained as far as possible before then. For this reason, albeit with reluctance, I hope that you will agree that the normal rules for appointing merchant bank advisers to the privatisation programme should be waived, and that an appointment can be made without a competition. This will also aid the timetable. I would also suggest that the review of the prospects for introducing private sector capital into Post Office activities and the review of the letter monopoly to which we have agreed should not be announced in advance of the NGB announcement. Indeed, there is much to be said for merging the two announcements.

5 Finally, there is one other major impediment to making progress on this issue, and this is within our control. I have seen your letter of 15 April to Geoffrey Pattie, but I hope that you will now be able to agree to the appointment of a Managing Director for NGB on the basis of the proposal set out in Geoffrey's letter of 18 March. The position has been exacerbated since then by the resignation of the NGB Finance Director, who has been appointed to the Board of Abbey Life.

6 We really must have a strong Managing Director of Girobank in place sometime before the announcement of our intention to privatise. He will be the key man in countering the activities of the opponents of privatisation within the NGB at Bootle and he needs to have been there for some time in order to have the credibility to discharge that responsibility.

7 I am copying this letter to the Prime Minister, Norman Fowler, Sir Patrick Mayhew, Members of E(NI) and to Sir Robert Armstrong.

Yours ever,

Norman

NORMAN TEBBIT

JH2AQI

SECRET

PRIVATISATION OF NATIONAL GIROBANK (NGB)

Giro systems for the rapid transmission of money, usually administered from a single centre using the postal system, were first established in other Western European countries before the First World War. In Britain, the Radcliffe Committee concluded in 1959 that such a system (though not necessarily based on the Post Office) would be a welcome innovation. The clearing banks instituted a credit transfer or "Bank Giro" service in 1961 but it was not centrally computerised until 1972. In the meantime, the Post Office Giro was set up in 1968, offering three basic services - transfer, deposit and payment.

2. When the Post Office Giro was set up, less than a third of the adult population had a bank account. Table 1 shows how the picture has changed:

Table 1: Proportion of British Adult (16 and over) Population with Current Accounts

1981	No. of People (m)	No. of Accounts	Percentage of adult population
1981	24.7	19.9	59
1982	25.1	20.3	60
1983	26.2	20.0	63
1984	28.5	22.8	66

NGB has been taking a growing share of this market. In 1975, the number of NGB accounts was 2% of the total; in 1984 it was 5 %. But in the last three years, NGB has been taking 15-20% of new accounts.

Table 2: NGB Personal Current Account Holders

1972	125,000
1975	450,000
1979	640,000
1980	820,000
1981	940,000
1982	1,080,000
1983	1,300,000
1984	1,520,000
1985 (est)	1,800,000
1990	2,600,000

3 After a financially shaky start, NGB recorded its first surplus in 1974/75 and has increased its profit ever since apart from 1980/81 and 1983/84:

Table 3: NGB Turnover and Profitability

Year	Turnover £M	Profit (Loss) £M	Profit on Mean Net Assets %
1968/69 (ie yr 1)	N/A	(1.7)	N/A
1969/70	N/A	(6.0)	N/A
1970/71	N/A	(6.0)	N/A
1979/80	112.5	11.2	40.6
1980/81	144.8	7.2	47.5
1981/82	177.0	12.2	29.4
1982/83	207.3	17.6	33.1
1983/84	227.3	15.5	25.3
1984/85 (est)	264.9	19.8	28.1
1985/86 (forecast)	297.2	25.3	31.6
1986/87 (forecast)	326.9	24.5	26.6
1987/88 (forecast)	367.3	35.7	33.3
1988/89 (forecast)	396.9	36.8	29.0
1989/90 (forecast)	427.9	36.2	24.8

Up to 1974/75, NGB accumulated net losses of £33.4M and in 1975 capital reconstruction wrote off half those losses and converted half of its remaining indebtedness into Public Dividend Capital. Table 4 summarises the subsequent position:

Table 4: NGB Capital Structure

	1 April 1975 (on reconstruction)	31 March 1979	(£M) 3 April 1985 (estimated)
Long-term loans (NLF)	12.7	16.7	19.0
Public Dividend Capital	13.0	17.0	22.0
Accumulated Profit (Loss)	(16.7)	(10.3)	34.0
Net Capital	9.6	23.4	75.0

PRIVATISATION ISSUES

4. There is no reason of principle for retaining NGB in the public sector. The Giro payment system today is a well established part of the service offered by all private sector banks and a private sector NGB could complement this service as effectively as a public sector NGB.

Legal and Regulatory Position

5. NGB could be privatised without the need for legislation. However, the Secretary of State's powers are limited to directing the Post Office to incorporate NGB as a formal Companies Act company and subsequently to sell all or part of the equity. He may not, without the serious risk of successful legal challenge, specify the method of sale, the

purchaser or the sale price. Further, he cannot direct that the Post Office release the proceeds of the sale to the Exchequer. Thus, if new primary legislation is to be avoided, the cooperation of the Post Office Board is necessary.

6 It is thought probable that NGB would receive recognised bank status before privatisation but it remains a possibility that it could be privatised as a licensed deposit taker. As a licensed deposit taker, NGB would be unable to advertise itself as, or call itself, a bank and, subject to the method of sale and identity of the purchaser, the valuation could be lower. These issues cannot be resolved in advance of a decision on the method of sale and identification of the eventual owner.

NGB/Counters Interdependence

7 NGB differs from the clearing banks in neither owning nor operating retail outlets of its own. Yet, through Post Office Counters, it has access to the largest and most geographically extensive retail chain in the UK. NGB and Counters are heavily interdependent, and for the short to medium term at least it is essential for both that the relationship continues. There is a clear need for this to be put on a contractual basis.

8 A draft contract has now been produced following discussions between the NGB and the Post Office Counter Services Division. A copy is at Annex A. It should be seen as purely illustrative.

9 The draft contract contains the provision for NGB to have the exclusive use of the Counters network and for NGB to place a specified reducing proportion of its business with Counters for the first five years of the contract. This could make the agreement registrable once NGB ceased to be a part of the Post Office (although there is a slight technical legal doubt). Informal, off the record advice from OFT is

that, if it were registrable, they would see a reasonable chance of the Director-General making representation to the Secretary of State under section 21(2) of the Restrictive Trade Practices Act 1976 but that must obviously be treated as a very preliminary view. This would mean that, although the agreement would remain on the register, it would not be processed through the court. However, even in these circumstances, a purchaser would have to accept that purchasing NGB could still involve registration on vesting day.

10 This is largely academic, however, as our legal advisers take the view that the requirement that Counters deal exclusively with NGB is ultra vires the Post Office Act as amended by the BT Act. Their view is that Parliament has provided the Post Office with the power to provide "banking services and such other services by means of which money may be remitted (whether by means of money orders, postal orders, or otherwise) as it thinks fit". (Post Office Act 1969, section 7(i) as amended by BT Act 1981 section 58(1) (b)). By contracting exclusively with NGB it will be providing such banking services as a private sector NGB - not the Post Office - thinks fit.

11 The effect of this advice is that NGB cannot be sold with a contractual guarantee of exclusivity. The purchaser can have the comfort, however, of knowing that it would be unlikely that the Post Office would choose to provide banking services other than through NGB and as the Post Office does not have a duty to provide banking services, there is no obligation for it to do so. Even if, for some perverse reason, the Post Office did decide to reestablish a banking facility, it would take some time and much resource to do so. Government has powers in the area of the Post Office investment programme. The overall effect therefore is that the absence of contractual exclusivity is probably undesirable for a potential purchaser and may reduce the valuation, but it is not fatal.

12 It is still possible to offer NGB for sale with the contractual obligation to place a specified proportion of its business with Counters for the first five years. This is desirable for industrial relations reasons and for reassuring the sub-postmaster lobby. The present management of NGB would be opposed to this simply on the grounds of equity, but a purchaser may be less concerned. Initially at least, NGB will, of necessity be tied largely to Counters although NGB would want to develop some alternative outlets quickly to avoid the prospect of being totally dependent on industrial relations in Counters over which it would have no control. The removal from the contract of the clause giving NGB exclusive use of Counters could also, with some minor changes to clause 3 of the draft at Annex A, be operated without falling foul of the RTP legislation as there would no longer be two parties accepting restrictions.

13 From this further consideration of a draft NGB/Counters contract, it is clear that there is no fatal impediment to a privatisation in this area but it cannot be taken further at this stage. This will be a matter for negotiation with the eventual purchaser or for decision before flotation.

Competition Considerations

14 The position under the Restrictive Trade Practices Act is discussed in paragraph 9 above. Privatisation of NGB other than by a flotation would also raise the question of the mergers provisions of the Fair Trading Act 1973. Clearly, it will be necessary to avoid a sale to a purchaser where there were any grounds for seriously considering referring the acquisition to the MMC given the role of the Secretary of State in this matter. In practice, and given the MMC's comments on the proposed acquisition of the Royal Bank of Scotland, this is likely to preclude only the big 4 or 5 clearers. Finally, although OFT advise that there is unlikely to be a problem with European competition law, particularly if the long-term exclusivity provision is dropped, it would be sensible to have an informal word with

the Commission before an announcement were made.

Pensions

15 NGB staff belong to the Post Office Staff Superannuation Scheme which provides for index linking. They would no doubt seek assurances that they would be no worse off after privatisation, but index linking - at least for new employees - is unlikely to be acceptable to a private sector purchaser. One option that will be worth considering further would be a payment from the Post Office to the nascent NGB pension fund. This problem is unlikely to be insurmountable but, again, cannot be resolved until a decision has been taken on the method of sale and/or discussions have been held with the new owner.

16 The Post Office has produced a note on the mechanics of setting up a discrete NGB pension fund (copy at Annex B). It is this that is critical to the timing of a sale. An actuarial valuation of the Post Office fund is currently taking place to report the position at 1 April 1985 and a separate valuation of the position of NGB employees will be included in the actuary's report. This should be available in the Autumn of this year.

17. Work necessary to create a separate fund for NGB staff is continuing but will make only limited progress in advance of a public announcement of the Government's intentions on privatisation as it is necessary to consult the fund's staff and possibly the trustees (including union nominees) before substantial progress can be made. Once that step is taken, the main influences on timescale, referred to in paragraph 2 of Annex B, are the need to seek approval for tax purposes from the Superannuation Funds Office to give it exempt status and the Occupational Pensions Board for contracting-out purposes in particular. An earlier sale could be possible if Government gave assurances that there would be speedy passage through these two bodies. This would not be unprecedented and is something to be taken up with the Chancellor and the

Secretary of State for Social Services when Departmental Ministers have decided to proceed. It is likely that work on setting up the fund could be completed on a timescale that would allow privatisation 12-18 months after a public announcement.

Views of Management

18. Although the Post Office Board would prefer privatisation, if at all, of the entire Post Office and not merely the NGB business, senior NGB management is enthusiastic about the principle. However, this view is dependent on the sale leaving NGB as a distinct entity with the presumption that their personal positions would not be adversely affected.

19. The Managing Director of NGB retired at the end of February and has not been replaced. Treasury are arguing that an appointment must await a decision on privatisation. The absence of an MD means that a privatisation could be later than if the appointment had been made on the timescale favoured by the Post Office Chairman and the Department. Nevertheless, if Ministers do decide to proceed, it will be necessary to move quickly to get the right person appointed. This is even more important since the Director for Finance and Investment resigned in early May.

Reaction of the Work Force and Unions

20. It is recognised that privatisation will be opposed by the NGB unions, the National Communications Union - clerical branch (formally CPSA) and SCPS, and by the UCW whose members include Counters staff as well as postmen. Sub-postmasters are also an effective lobby and can be expected to be concerned at any potential loss of business. NGB represents a higher proportion of Crown office business than is the case for sub-post offices but sub-post-masters will still need reasurance.

21. NGB is wholly dependent on UCW members at Counters for its retail outlets in Crown offices, and also relies heavily on the post. Moreover, NGB is mainly concentrated on its computerised processing operation at Bootle where even an overtime ban could make NGB cease operating as a bank within a week or two. There is a small but highly influential Militant Tendency group at Bootle. However, it is interesting to note that industrial action over pay and productivity last year looked very serious for a time but, although the work-force went to the brink of doing serious damage to NGB, they chose to retreat to a realistic position when faced with firm management. Nevertheless, industrial action on anything more than a fairly token scale could rapidly lead to the loss of important NGB customers (eg some of the big retail chains) thereby seriously damaging its profitability and greatly reducing its attractiveness to a potential purchaser.

22. On the other hand, the prospect of serious industrial action has to be faced before NGB can be privatised. In the longer term, it would obviously be sensible to break down the concentration of work at Bootle and NGB have already started this by opening up regional centres - 5 out of a total of 7 are already in operation as is one of 4 or 5 cheque encoding centres. This is part of ongoing NGB strategy to seek to diminish the concentration on Bootle and hence the power of the union there. However, in the short term a buyer would expect the work force to accept privatisation and it will be necessary to establish the unions' position and, if necessary, challenge their opposition.

23. The reaction of the work-force and unions, and particularly the foreseeable desire of Militant Tendency at Bootle to embarrass the Government on this issue, present the only real risk to a successful privatisation. There are other problems but these are essentially technical and are surmountable. There can be no guarantees of success and privatisation of NGB will be something of a gamble. But acceptance of the reality of the potential influence of

Militant Tendency conditions a number of decisions in connection with the privatisation that have the effect of reducing the odds to acceptable proportions.

24. The clearest risk is that if the privatisation is arranged in such a way that its opponents are able to convince the work-force that they will face early redundancy as a result of asset stripping or rationalisation, the work-force will be persuaded that they have nothing to lose from opposing privatisation even to the point of destroying NGB. This is an equally important consideration in carrying management forward with the policy. Such an obvious own goal is avoidable but it restricts some options. There is merit in leaving a share of the equity (at least 25% with the Post Office initially. Work-force shares are also an option although they will be of limited value if NGB is not to be a listed company. The conundrum is that the more that is done in this way, the less attractive is NGB to a potential purchaser. It is also important to manage the timing in a way to minimise the opportunity for stirring up opposition.

Method of Sale

25. NGB could be sold in a number of ways including:

(a) By public offer for sale at a fixed price or tender;

(b) By sale to a single purchaser or consortium by fixed price, tender or negotiated price;

(c) by a hybrid arrangement with a sale of a majority shareholding to a single purchaser or consortium, a minority shareholding to management and staff, and with the Government indirectly via the Post Office retaining a stake that would ultimately be disposed of.

26. On the basis of the argument at paragraphs 20-24 above, the best tactic would appear to be to go as far as possible

in the first announcement of a decision to privatise Girobank to provide reassurance that the interests of staff would be safeguarded and that business would not be diverted away from sub-offices. Sale of NGB as an entity to a single purchaser would limit the extent to which really firm assurances about the future could be given. Until we had identified a potential purchaser, we could not be certain how far he would be willing to go in, for example, preserving NGB employees' existing, index-linked, pension rights or committing himself to the use of sub-offices for the indefinite future.

27. The case for sale to a single purchaser is otherwise a strong one. It is doubtful whether NGB is yet strong enough to stand on its own in the increasingly competitive financial services market. It will almost certainly need to raise additional capital for investment over the next few years. Neither a public flotation nor a management buy-out could provide the added solidity and stability which it needs. Carefully presented, sale to an existing institution of some size interested in developing into the retail banking market could be made to appear as clearly in the interests of NGB and its employees and as significantly strengthening competition in financial services. Other alternatives might lend themselves to representation by opponents of privatisation as privatisation for privatisations sake.

Potential Purchasers

28. Depending on price and terms (and the outcome on the issues discussed above) the potential purchasers might include:

(a) smaller/medium UK bank wishing to gain access to the clearing system and/or establish a retail banking customer base (Standard and Chartered, Grindlays) or to acquire access to a branch system via the Counters network (eg Royal Bank of Scotland);

(b) a financial services company or insurance group wishing to expand or diversify;

(c) a non-financial services company eg.retailers or mail order companies.

29. EEC rules mean that it is generally not possible to prohibit foreign takeovers as such. Sale to a single purchaser, as opposed to a flotation, offers more ready Government control over ownership. If the sale were by negotiated price it would make excluding unwelcome bids simpler and more easily defended. It would seem that there are ways of ensuring that potential purchasers who are unwelcome to the Government are not successful.

Valuation

30. Making allowance for sale at either a discount or a premium (depending on how NGB is sold and to whom) suggests a valuation of NGB in the range of £50 to £120M but more probably within the range of £75 to £100M.

Timing

31. As explained in paragraph 17, a privatisation is possible some 12-18 months after an announcement of the Government's intentions. For the reasons explained below, that would suggest a sale in the second half of 1986/87.

Conclusions and Recommendations

32. It remains the view of officials that privatisation of NGB is feasible. There are a number of obstacles to be overcome but the central issue remains the position of the work-force and the unions and particularly the need to cope with an influencial Militant Tendency presence at the main NGB processing centre at Bootle. In our view, this is not insurmountable but does require careful handling.

33. A public offer for sale is unattractive in this case and the preferred course would be the sale of a majority of the equity to an individual purchaser, with the Post Office retaining 25% and the balance available for distribution to the work force. The Articles of Association for NGB plc would be written to ensure that the Post Office's 25% constituted a guarantee that NGB would retain its separate identity. But the Government would retain the power, through existing legislation, to require the Post Office to dispose of its holding at a later date (although legal advice is that new legislation would be required to enable the Government to direct that that equity be sold to the initial purchaser or to specify the valuation of the holding). This approach also provides greatest safety against an unwelcome bidder.

34. This paper has explored a number of technical issues concerned with a sale, that the Secretary of State commissioned when he considered this matter last year. The conclusion on most of these issues has been that there is no insurmountable problem but that a decision must await the identification and the views of a potential purchaser. If Ministers accept that NGB remains a firm candidate for privatisation, the next step would be the appointment of a merchant bank to make confidential approaches to potential purchasers and to explore with them how far the Government could go in the direction of giving firm assurances to management, NGB and Counters staff and sub-postmasters without seriously damaging the prospect of a sale.

35. It is also necessary to sound out the Chancellor and the Secretary of State for Social Services on the prospects for speedy passage through the Superannuation Funds Office and the Occupational Pensions Board for the new NGB pension fund to minimise the time available for opponents of privatisation to rally support for their views among the workforce.

36. Only when the merchant bank has reported and the position on the NGB pension fund is clear can Ministers take a final decision. It is therefore important that

confidentiality is maintained as far as possible before then. For this reason, we would argue that the normal rules for appointing merchant bank advisers to the privatisation programme be waived and that an appointment be made without a competition. We would also recommend that the review of the prospects of introducing private sector capital into Post Office activities and the review of the letter monopoly agreed by the Secretary of State and the Chancellor should not be announced in advance of the NGB announcement.

SPF2a/DTI
May 1985

AH2ABS

29 MAY 1985

SECRET

NBBPM

CC NO

AT 12

24/7

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

J F Mogg Esq
Private Secretary to
The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
LONDON
SW1H 0ET

23 July 1985

Dear John,

NATIONAL GIROBANK

Your Secretary of State's letter of 29 May to the Chancellor referred to the need to obtain a contracting-out certificate from the Occupational Pensions Board for a National Girobank Pension Fund and asked my Secretary of State to take informal soundings to see whether this could be done quickly. I am sorry for the delay in replying.

I understand that there is a requirement for three months' notice to be given to employees affected by a proposal to establish a contracted-out pension fund. The Board have discretion to shorten this provided there are no objections (for example from the Trades Unions) but in view of what you say about the likely Trade Union attitudes that may not be possible in this case. Subject to this proviso, and assuming the documentation is correctly prepared and the Board are consulted at an early stage about the requirements of the scheme (which can be done in confidence), it should be possible to obtain a certificate quite quickly. A certificate can also be issued with retrospective effect once all the requirements are satisfied.

I am copying this letter to Mark Addison (No 10), to the Private Secretaries to members of E(NI) and to the Solicitor-General, and to Richard Hatfield (Cabinet Office).

A Laurance

A Laurance
Private Secretary

SECRET

Post + Tel: Future Pt 9

SECRET

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

6 June 1985

Dear Secretary of State

PRIVATISATION OF NATIONAL GIROBANK

I agree with you that the central question is whether the local branch of the NCU can be prevented from frustrating the privatisation of NGB. Politically, this problem has in part to be seen in the more general political context of Merseyside - not only the actions of the Militant Tendency now in control of Liverpool City Council but also of further political problems that could arise in the context of tough precept control between the Government and the Passenger Transport Authority that will take over the public transport responsibilities of the Merseyside County Council. I see some danger that an early confrontation with the Bootle work-force could escalate the political difficulties of the Government in Merseyside, reacting back unfavourably on your plans. You have probably already considered this, and concluded that there would be no advantages in delaying your proposed action. But given the danger of leaks, I felt I should specifically bring this danger to your attention.

I am copying this letter to the Prime Minister, Norman Fowler, Sir Patrick Mayhew, Members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

PATRICK JENKIN

Approved by the Secretary of State and signed in his absence.

8

OLO

SECRET

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

29 May 1985

Margaret O'Mara
Private Secretary
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

TOTAL COPIES 26

COPY No. 2

N BM

Dear Margaret,

PRIVATISATION OF NATIONAL GIROBANK: HANDLING OF PAPERS

I am writing in combination with the attached letter from my Secretary of State to the Chancellor to draw your attention and that of other recipients to the extreme sensitivity of the contents and to ask that distribution within your Departments be as limited as possible.

2 My Secretary of State is recommending that National Girobank (NGB) should continue to be a privatisation candidate and that he should move quickly to the appointment of a merchant bank to make confidential approaches to potential purchasers and to explore with them how far we could go in overcoming certain obstacles to privatisation, identified in the paper, without damaging the prospects for a sale.

3 It is certain that privatisation will be opposed vigorously by the main NGB trade union, the clerical branch of the National Communications Union, at the main processing centre at Bootle which is dominated by Militant Tendency. There is currently sufficient uncertainty over the detail of the sale for Militant to be in a strong position to jeopardise very seriously the prospect of a sale. This uncertainty will be resolved when the merchant bank has reported and appropriate tactics for handling opponents of privatisation can then be developed. My Secretary of State therefore regards it as essential that the Government should retain control over the timing of any announcement and premature disclosure could have very severe consequences.

Yours ever,

Andrew Lansley JH2AQH

ANDREW LANSLEY
Private Secretary

991-1

NDPM

AT 3/6

Secretary of State for Trade and Industry

ANNEXES TO ACCOMPANY NORMAN TEBBITS LETTER OF 29th MAY 1985

"PRIVATISATION OF NATIONAL GIROBANK"

COVERING SECRET

V5788

IN STRICTEST CONFIDENCE

ANNEX A

(PO Draft 6)

THIS AGREEMENT IS MADE ON THE DAY OF 1985

BETWEEN:-

(1) The POST OFFICE of 33 Grosvenor Place, London SW1X 1PX ("the Post Office")

and

(2) NATIONAL GIROBANK of 10 Milk Street, London EC2V 8JH ("the Bank").

WHEREAS the parties have a mutual interest in the maintenance and development of the provision of banking services at post offices and desire in furtherance thereof to establish the basis upon which such services shall be provided NOW IT IS HEREBY AGREED as follows:_

1. DEFINITIONS

In this Agreement the following expressions shall have the following meanings:

"agency service" means services provided by the Post Office as agent for other bodies, apart from the Bank;

"banking powers" means those powers conferred upon the Post Office by Section 7(1)(b) of the Post Office Act 1969 (as substituted by Section 58(1) of the British Telecommunications Act 1981) and such other powers conferred upon it by Section 7(2) of the Post Office Act 1969 as are incidental thereto;

"base rate"	means the base rate of the Bank published from time to time;
"cash"	means sterling notes and coins of any or all denominations;
"commencement date"	means the first day of April 1985;
"financial year"	means an accounting year of the Post Office for the purposes of section 75 of the British Telecommunications Act 1981;
"useful cash"	means cash which is useful to the Post Office having regard to its location, denominations and total value and which, if not deposited by the Bank and its customers, the Post Office would have been obliged to obtain from another source.

"base cash credit rate" means the rate the Post Office shall pay for useful cash deposited by customers of the Bank in all post offices other than those specified in Schedule 4 and for the base volumes of useful cash as specified for those Head Post Offices listed in Schedule 4 hereto.

"marginal cash credit rate" means the rate the Post Office shall pay for the marginal volumes of useful cash as specified for those Head Post Offices listed in Schedule 4 hereto.

"till money" means the aggregate amount of cash and bank balances needed to operate the counter network. Till money therefore represents the working capital requirements of the counter network.

2. PROVISION OF SERVICES

2.1 By the Post Office

2.1.1 The Post Office shall as agent for the Bank provide to and in respect of customers of the Bank the banking services listed in the left hand column of Schedule 1 hereto upon the basis or at the places specified in the right hand column thereof. The details contained in Schedule 1 may be varied either by addition or deletion upon the mutual agreement of the parties.

2.1.2 The services referred to in sub-Clause (1) hereof shall be provided subject to such conditions and in accordance with such procedures and quality standards as the parties shall from time to time agree in writing but subject thereto shall be under the direct day to day control of the Post Office.

2.1.3 The Post Office shall display point of sale material to promote the Bank's services at crown post offices for a charge to be separately negotiated.

2.2 By the Bank

2.2.1 The Bank shall provide point of sale material in such quantities and to such timescales as may be mutually agreed, to promote the Bank's services at all cash account post offices.

2.2.2 The Bank shall prepare error notices from reconciliation of cash account information provided by the Post Office with information received by the Bank direct from post office counters, and shall undertake associated work as jointly agreed.

3. SUPPLY OF CASH

3.1 The Post Office recognises the Bank as its chief source of bank notes and the Bank undertakes not to deposit notes with other parties except in mutually agreed circumstances.

3.2 The Bank undertakes to make the Post Office as near self sufficient in coin as is practicable in locations required by the Post Office.

3.3 The Post Office undertakes to accept from the Bank all useful cash which is offered to it by the Bank or deposited by customers of the Bank at post offices, and shall pay for such cash at the two rates, as defined in Appendix 1 hereto, to be negotiated annually; these negotiations shall take account of the following factors:-

(a) full cost of supply from other banks;

(b) costs of handling and distribution thereof;

(c) proportion of useful cash to other cash;

(d) proportion of notes and coins;

(e) other factors which have an impact on the price of cash.

3.4 The Post Office undertakes to accept, wherever it operationally can do so, and subject also to any maximum cash limit set by the Post Office for security reasons in respect of each individual post office any cash deposited by customers of the Bank at designated post offices, whether or not it is useful cash. The

Post Office shall give value to the Bank in respect of all cash on the day of its being brought to account.

3.5 To the extent that the Post Office incurs costs in receiving, handling and processing cash deposited in accordance with this Clause, it will include such costs in the prices charged to the Bank under Clause 5 hereof. This includes costs of disposal of any cash which is not useful cash.

4. FUNDING ARRANGEMENTS : TILL MONEY

4.1 NGB will pay interest at the prevailing one year LIBOR rate on its share of the money held for one night; or longer as agreed jointly between the two parties in:

(a) inward remittances;

and

(b) at Head/District post offices

but excluding money held in counters tills ready for use next day. NGB's share of till money for the purposes of this clause is calculated as follows:

4.2 Cash in Inward Remittance

(a) The amounts that can be specifically identified as originating from Girobank Corporate Deposits because the cash is enveloped.

(b) The Bank's remaining cash in inward remittances, excluding the Girobank Corporate Deposit cash flow as identified at 4.2(a) above.

4.3 Cash with Head/District Office Cashiers

(a) The amounts that can be specifically identified as originating from Girobank Corporate Deposits;

(b) Any specifically identified, Bank originated cash held at Head/District post offices excluding the Girobank Corporate Deposit cash flow as identified at 4.3(a) above.

The calculation of the above will be estimated in accordance with schedule 2C of this agreement and be based on actual up-to-date data mutually agreed between the parties. Interest will be paid in quarterly instalments as specified in Clause 5(2) of this agreement.

5. CHARGES FOR SERVICES

5.1 The Bank shall pay to the Post Office in respect of the services referred to in Clause 2.1 hereof an annual sum calculated in accordance with the provisions of Schedules 2 and 3 hereto, but offset by any sums due to the Bank under Clause 3 hereof.

5.2 The annual sum referred to in sub-Clause (1) shall be paid by the Bank in four equal instalments on 15th May, 15th August, 15th November and 15th February in each year (or the nearest weekday if any such date falls on a Saturday or Sunday or a Bank Holiday). The

Post Office shall render an invoice to the Bank at least 14 days before the date for payment.

5.3 The Bank shall pay interest to the Post Office at the Bank's base rate plus % per annum in respect of payments made later than the dates referred to in sub-clause (2).

5.4 Each party shall have the right, upon giving reasonable notice, of access to and inspection of such documents and information in the possession of the other as is or are necessary to enable the charges payable under this Agreement to be properly and accurately calculated.

6. INDEMNITY RELATING TO CHEQUES ETC

The Bank hereby indemnifies the Post Office against all actions costs claims and expenses arising out of or incurred in connection with the payment or collection of cheques and other instruments in the ordinary course of business by the Post Office on behalf of the Bank or any of the Bank's customers. This indemnity shall not affect the right of the Bank to pursue claims against or defend claims by the Post Office for loss arising out of a failure on the part of the Post Office's staff, including subpostmasters, to comply with Postal Instructions relevant to the payment or collection of cheques and other instruments.

7. DURATION AND TERMINATION OF AGREEMENT

7.1 This Agreement shall take effect on and from the commencement date and shall continue in force, until amended or terminated in accordance with the provisions of this Clause.

7.2 As regards any one or more of the services provided under Clauses 2 and 3 hereof, either party may at any time:-

i) Give not less than 12 months prior notice to the other of a desire to renegotiate the prices or any part thereof payable under the Agreement. Such notice not to be given earlier than 1 April 1987;

ii) Give not less than 60 months notice to the other to delete, or materially alter, any of the services listed in Schedule 1A;

iii) Give not less than 24 months notice to the other to delete, or materially alter any of the services listed in schedule 1B.

iv) Give not less than 60 months notice to the other of intent to terminate this Agreement.

The party terminating must within three months after the date of giving notice, provide to the other a statement of its intent concerning any future Agreement between the parties.

7.3 Termination of the Agreement in accordance with sub-Clause (2) of this Clause shall not affect any rights of either party which may have accrued prior to the date upon which the termination takes effect.

8. FORCE MAJEURE

Neither party shall incur any liability to the other as a result of any omission, error, delay or other default where such omission, error, delay or default results from any industrial dispute or strike or from any circumstances whatsoever outside the reasonable control of that party including, but not limited to, any fire, flood, explosion, riot, Government act, war or any other force majeure or Act of God.

9. ARBITRATION

All disputes, differences or questions between the parties with respect to any matter or thing arising out of or relating to this Agreement, except to the extent to which special provision for the determination of disputes is made elsewhere in the Agreement, shall be referred to+-

- The arbitration of such persons as The Post Office shall from time to time think fit whilst the Bank is a wholly owned subsidiary of The Post Office.

- The arbitration of two persons, one to be appointed by each party, or their Umpire, in accordance with the provisions of the Arbitration Act 1950 or any statutory modification or re-enactment thereof, if the Bank is not a wholly owned subsidiary of the Post Office.

The decision of the arbitrators shall be final and binding upon the parties.

10. EXCLUSIVITY

10.1 The Post Office undertakes not to exercise its banking powers except as agent for the Bank, or as otherwise agreed in writing with the Bank, except to the extent that it undertakes services on behalf of the National Savings Department.

To the extent that any service can be provided by The Post Office under both its banking powers and its other powers, it shall be deemed to be a banking service if listed in Schedule 1.

10.2 The Bank undertakes that during the period of five years from the commencement date the proportion of its business volume (in Basic Transaction Hours) at post office counters to its business volume at all counters at which equivalent services are offered shall not decline at more than 3% per annum cumulatively. In the event of default on this undertaking, the Bank will compensate the Post Office by paying charges as though the undertaking had been met. The Post Office shall have the right to request the Auditors to the Bank to certify matters relating to the foregoing. In the context of this Clause:

a) Changes in business volume which result from changed counter methods or technology;

and

b) Changes in business volume of DHSS Girocheqes

shall not count towards the calculation of change in volume.

10.3 Clause 10(1) does not apply to any service listed in Schedule 1 whose transactions across post office counters falls below x% of the 1985/86 level.

11. ASSIGNMENT

The parties hereto shall not assign their respective rights and obligations under this Agreement.

12. NOTICES

Any notice required to be given hereunder shall be in writing. The address for service of notices under this Agreement shall be:

The Post Office -

The Bank -

or such other address as either party has notified to the other for this purpose.

Notices may be sent by first class post or delivered by hand, and in the case of the former shall be deemed to have been received on the business day next after the day of posting.

13. GOVERNING LAW

This Agreement shall be subject to the Law of England and the jurisdiction of the courts of England.

14. The headings to Clauses in this Agreement are for ease of reference only and shall not affect the interpretation thereof.

IN WITNESS whereof the parties hereto have caused this Agreement to be duly executed the day and year first above written.

APPENDIX 1

CASH CREDIT

The Post Office will pay a cash credit for useful cash provided through deposits.

Cash credit will be paid at the following rates:

p/100

- base cash credit rate
- marginal cash credit rate

in each case from the commencement date.

The rates will be subject to annual review and will be agreed betweeen the parties prior to the the commencement of the financial year in question.

Schedule 4 provides the forecast target cash volumes for the HPO's areas in which the lower cash credit rate (ie marginal) will apply in the first year. (The targets and the number of HPO's in which the lower rate applies will be reviewed annually and notified to the Bank prior to the commencement of the financial year in question.

The total price paid for useful cash will be provisionally calculated in advance of the account year on the basis of forecast requirements and forecast supply. Adjustments will be made retrospectively based on actuality.

IN STRICTEST CONFIDENCE

SCHEDULE 1A

COUNTER AND OTHER SERVICES PROVIDED BY THE POST OFFICE (AS AT JANUARY 1985)

	Service	Availability
1.	Corporate Deposits	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.
2.	Other Cash Deposits to Girobank Account.	All cash account post offices.
3.	Cheque Deposits to Girobank Account	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.
4.	Cash withdrawals by cheque from Girobank Account.	All cash account post offices subject to specified card limits.
5.	Cashcheques (excluding social security cheques).	All cash account post offices subject to instructions on cheque.
6.	Rent vouchers and card payments	Specified range of post offices for each housing authority.
7.	Social Security Cheques	All post offices subject to instructions on cheques.
8.	Change giving	Post offices nominated by the Bank for specific customers, and agreed by the Post Office.

SCHEDULE 1B

1.	Sale of Thomas Cook Travellers Cheques	All cash account post offices.
2.	Bureau De Change	Specified post offices as jointly agreed by the Bank and the Post Office.

The precise detail of the services to be provided shall be as specified in Postal Instruction M2 H (as varied from time to time).

[These schedules cover the main product groups but needs expansion to accommodate the contents of para 7.2 (ii) and (iii)]

IN STRICTEST CONFIDENCE

SCHEDULE 2

A. CALCULATION OF CHARGES FOR SCHEDULE 1 SERVICES (excluding item 7)

For each financial year of this agreement the Bank will pay to the Post Office:

1. A base sum of £ m in 1985-86 prices ("the fixed price") as the Bank's contribution to fixed costs of the Post Office's counter network. For each year after 1985-86 the fixed price shall be increased by the percentage increase in the Retail Price Index plus/minus x.

2. For each service listed in Schedules 1A and 1B a fixed unit price per service times the number of transactions for each service. These unit prices will be related to base 1985-86 variable cost levels. The unit price for each service may be varied by negotiation as a result of review of the service as operated at the counter (particularly in respect of timing and value), such review to be carried out jointly by the Bank and the Post Office. For each year after 1985-86 the fixed unit price per service shall be increased by the percentage increase in the Retail Price Index plus/minus y.

3. In addition, for annually agreed discrete services, incentive discounts will be offered for volume achievement over and above the agreed forecast volumes in the year in question, (unless previously agreed for longer periods).

4. For any new service, the work content, having due regard to any operational difficulty caused at the counter, will be jointly assessed by the Bank and the Post Office and a unit price will be negotiated. Thereafter the price will alter as in paragraph 2 above.

   The impact on the fixed costs of the Post Office will also be jointly assessed and, if appropriate, will increase the sum in paragraph 1 above by a negotiated amount.

5. The foregoing will include all elements of the costs of the Post Office in serving the customers of the Bank, as listed in Schedule 3.

NOTE - Until such time as the fixed and variable cost levels can be established to the mutual satisfaction of both parties an interim fixed price sum and interim fixed unit prices per service will be mutually agreed by negotiation annually. It is the intention that this interim measure will apply only for 1985-86.

B. CALCULATION OF CHARGES FOR SCHEDULE 1, ITEM 7 SERVICES

The price for DHSS cashcheques will be calculated as a fully allocated price per unit in base 1985-86 prices; each year, this price will increase by the percentage increase in the Retail Price Index plus/minus z.

C. CALCULATION OF ANNUAL SUM

The annual sum referred to in clause 5(i) of this Agreement shall be estimated on the basis of forecasts of traffic volumes, made by the Bank by 31 July of the year preceding the financial year in question, and applied to unit prices as specified in this Schedule, and with the addition of the 'fixed price'.

An initial quotation will be given by the Post Office by 30 September and a mutually agreed provisional price reached by 30 November (in each case in the year preceding the financial year in question).

The Bank will supply a further estimate to the Post Office in April of the financial year in question, and this estimate will then form the basis of the quarterly payments. An assessment of actual traffic volumes will be agreed between the parties in the May following the end of the financial year in question, and any resulting adjustment settlement will be made on 1 June next thereafter.

IN STRICTEST CONFIDENCE

SCHEDULE 3

ELEMENTS OF COSTS OF THE POST OFFICE IN PROCESSING THE SERVICES AT SCHEDULE 1

Processing, in the context of this agreement includes:

At local office level:

i) Counter serving and all related activities (eg enquiry work)

ii) Local office accounting

iii) Cash and stock provision, distribution and control

iv) Local office administration, including counter-related clerical work.

v) Banking and funding arrangements

vi) Security and other ancillary costs

At Regional and Postal Headquarters level:

i) Centralised accounting and stock control

ii) Banking and funding arrangements

iii) Internal audit and administration

IN STRICTEST CONFIDENCE

SCHEDULE 4

CASH CREDIT - TARGET AND RATES

Location	Target Volumes	
	Base £m	Marginal £m
District X		
HPO		
HPO		
HPO		
etc		
Total District X	______	______
District Y		
HPO		
etc		

ANNEX B

IN STRICTEST CONFIDENCE

SEPARATE GIROBANK PENSION SCHEME

1 Introduction

This memorandum considers how the pension entitlement of employees and pensioners of Girobank could be dealt with, should Girobank become a separate legal entity, constituted under the Companies Act. It takes as a hypothesis that this should be achieved without new legislation, though paragraph 9 indicates how some of the problems could be overcome if legislation were enacted. It also assumes that it will not be possible to change the Trust Deed of POSSS, though this could be done either by the unanimous support of all trustees (which could be difficult to achieve), or by the Secretary of State making an order under Section 76 of the British Telecommunications Act 1981.

2 Setting up the Scheme

If Girobank were to become a separate legal entity which was not a subsidiary of the Post Office, then it would be necessary to set up a Girobank Staff Superannuation Scheme which would in many, but not necessarily all, respects look like the Post Office Scheme. This necessitates drawing up a new Trust Deed and whilst an interim deed could be produced in a day, a finally approved scheme could take up to two years, if it was very materially different from the present scheme. The reason for this long timescale is that it needs approval for tax purposes from the Superannuation Funds Office to give it exempt status and the Occupational Pensions Board for contracting-out purposes in particular. Provisional approval can usually be obtained quickly; such an approach secures all the related tax advantages and contracted-out status for members of the scheme - the debility being that recoveries of tax deducted at source on income derived from the investment of monies transferred to the new scheme would be delayed until full approval were forthcoming. In certain cases where the Superannuation Funds Office deems the loss of income on the tax recovery deferred to be material, the recovery has been granted subject to the Trustees giving certain undertakings. Whilst, therefore, the Superannuation Funds Office might be willing to co-operate in this way we have nevertheless thought it right to explore three other ways of coping with the time factor.

a) Set up the new company, but second staff to it, rather than transfer them, until the new scheme is finalised. It is not clear what complications this would produce when staff were eventually required to transfer.

b) Set up the new company, transfer the staff to it but arrange for the transfer from POSSS to take place only when the new scheme is complete. However, the Solicitor's view is that, as POSSS is open only to Post Office employees, this would be possible only with an alteration to the Trust Deed.

c) Ensure that the new scheme is ready at the date of setting up the new Company. This is seen as the safest course. Both the Actuary and the Solicitor would be content to work to a target date of October 1986, assuming a prompt start is made to the work and on condition that no attempt was made to make wholesale changes to the pension conditions for existing staff. Indeed, there would be a strong case for allowing them to transfer on identical terms to those that they have at present. If the Trust Deed is suitably drafted, this would not preclude offering

IN STRICTEST CONFIDENCE

If the share of the fund approach were applied strictly, the transfer values produced should in total equal the full reserves for the accrued benefits of Girobank employees calculated on the latest valuation basis and reduced in proportion to the asset-cover applicable to the whole POSSS - the fund being treated as a single entity for funding purposes. It may be argued, however, that the contribution rate required in respect of Girobank employees is considerably less than the overall contribution rate which has been paid by both the Post Office and Girobank in the past, and that therefore it might be reasonable to transfer the full reserves without the proportionate reduction. If the Post Office as well as the Trustees were to agree that such enhanced values were justified on these grounds, such payments could be granted within the terms of Rule 20. We believe the approval of the Post Office is necessary, because it would in effect be bearing the cost of dealing with Girobank employees in this special manner.

If, however, the Trustees were not willing to accept an enhanced scale to be used specifically for the transfer of Girobank employees, there would be a shortfall of assets to cover the liabilities transferred in the new scheme. It would nevertheless be possible for the Post Office to make good the shortfall by paying a lump sum direct to it or by establishing an equivalent deed of covenant promising payments over a number of years.

If it were decided that Girobank should be given the benefit of the extra notional contributions which it has been paying, it should be immaterial whether enhanced transfer values are paid or whether the Post Office makes contributions to the Girobank Scheme in the manner just described, as the Post Office's future contributions to POSSS will reflect whatever monies are left after the transfers take place.

6 New Employees

After the formation of Girobank as a separate legal entity, all new pensionable employees would join the new scheme and would receive benefits in accordance with the rules. These benefits would not necessarily be the same as for those who transferred from the Post Office.

7 Administration of the New Scheme

Currently, pension administration is handled at Chesterfield. It is possible for this arrangement to continue, with the Post Office acting as Girobank's agent while it is a Post Office subsidiary and after that on a 'spare resources' basis. However, if in the longer term Girobank ceased to be part of the Post Office Corporation, it is likely that Girobank would wish to undertake this work for itself.

The new scheme will also need to make arrangements for the investment of the fund's monies, including the assets received from POSSS. Various options are open and will need examination, though this memorandum does no more than note some of them.

a) Will PosTel be retained for the management of the assets?

b) Will the transfer payment be made by means of a share of the actual assets owned by POSSS, or by their cash equivalent?

IN STRICTEST CONFIDENCE

8 Trust Deed

If the Trust Deed were altered, then this could smooth the passage of change. At a very simple level, the Post Office Scheme could be extended to temporarily cover employees transferring to a new approved employment which had not been fully established as a scheme to which Rule 20 could be applied. Of potentially greater significance would be to change the Trust Deed and Rules, or to have them changed by statutory instrument in such a way

a) that employees of National Girobank were still eligible and required to be members of POSSS whilst Girobank were a subsidiary of the Post Office.

b) that accounts be established and maintained within POSSS on advice from the Actuary which show separately the assets and liabilities applicable to Girobank staff from those of Post Office staff.

This would avoid the necessity of setting up a new scheme immediately, but would not solve the problem if Girobank, at some stage, ceased to be a subsidiary of the Post Office or wished to establih its own scheme.

9 Legislation

If it were decided that legislation was necessary to establish Girobank as a separate company, then this, too, could ease the path of the change. It would still, of course, be necessary to set up and get approval to a new scheme. The advantages would be that

a) all employees could be transferred without the complication that some might opt to have pensions frozen under Rule 21.

b) the legislation could determine how the fund is to be divided and hence there would be no need for there to be agreement by the Post Office or the Trustees to any special payments. The legislation might be on the assumption that the scheme was fully funded at the time of transfer or alternatively that the amount transferrable should be determined by reference to notional accounts kept in respect of Girobank members since October 1981.

c) the problems of timing of transfers of staff and assets could be resolved.

10 Next Steps

10.1 The drafting of a new Trust Deed needs to be put in hand. This is a substantial task, requiring much work by the Solicitor and Girobank. It is recommended that this be started immediately.

IN STRICTEST CONFIDENCE

10.2 Work on determining how the assets should be transferred and managed needs to be undertaken. Any transfer of assets will need to reflect the position disclosed by the March 1985 valuation for which the Actuary is preparing notional accounts in case they should be needed for the purposes set out above and also to assess the future contribution rate payable by Girobank if a split does not take place.

10.3 If it were decided that Girobank should cease to be part of the Post Office Corporation, it would be desirable to enable the Bank to undertake its own pension administration, if it so chose to put work in hand. So long as Girobank remains part of the Post Office, however, pension administration would be undertaken on behalf of the whole Corporation at Chesterfield.

18 February 1985

POST + TELS Pt 9

future