

RESTRICTED – POLICY AND COMMERCIAL

To: Vince Cable, Jo Swinson
From: Tim McInnes **GRO**
Date: 10 July 2013

Meeting with Post Office Ltd. (“POL”) on its Strategic Plan
12:00 – 12:45 Thursday 11 July 2013

1. Purpose

Discuss POL’s commercial and network strategy for 2015/16 to 2019/20, and the funding requirement associated with this. POL is keen to focus this meeting on its Network Transformation Programme (“NTP”) and wants to seek your approval to continue discussions with the National Federation of SubPostmasters (“NFSP”) in relation to agreeing a new approach to implementation. This is likely to include a move away from a voluntary approach to scheduled, or mandated, delivery.

Note: POL understand that you might want to talk about the Second Sight report into POL’s Horizon computer system, and the impact that this has had on a small number of subpostmasters. This remains a key focus area for POL however they would like to focus this meeting on their new strategy and plans for transforming the post office network. Should you want to talk to POL about the Second Sight report POL will be more than happy to meet at a time that is convenient to cover this with you in detail.

2. Attendees

- Alice Perkins (POL Chair)
- Paula Vennells (POL Chief Executive)
- Sue Barton (POL Strategy Director)
- Martin Edwards (POL Chief of Staff to Paula Vennells)
- Will Gibson (ShEx)
- Tim McInnes (ShEx)

3. Your objectives

- To make clear your support for POL’s new strategy which seeks to put the business on a financially sustainable footing that can support: (i) a significant reduction in the need for HMG funding; (ii) opportunities to grow the post office network for the first time in many years; and (iii) a mutualisation of POL.
- To express caution around the changes that POL is planning to make to NTP and in particular any move away from voluntary implementation that does not have the support of key stakeholders (e.g. the NFSP). This includes POL’s ability to manage the NFSP’s (and its members’) concerns both nationally and locally.
- To seek POL’s views around whether it could be possible to put in place time limited compensation as a mechanism for encouraging post office conversions, while retaining a voluntary approach to implementation.
- To encourage POL to continue to work closely with the NFSP in order to agree a strategy that not only meets the objectives of POL, the NFSP, HMG and POL’s customers but also delivers Value for Money for the taxpayer.

Commented [p1]: You obviously won’t want to go into detail here, but the last time the network grew was 49 years ago in 1964...

4. POL objectives

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- To explain the context to POL's new strategy – this defines the approach management are taking to a number of key strategic initiatives. POL will want to introduce the approach it is taking to: (i) transforming, investing in and growing its network; (ii) launching new products; (iii) becoming a more customer focused and commercially responsive organisation; and (iv) working with stakeholders.
- To make it clear that while NTP is central to its "vision", based on the current voluntary approach to implementation it will not be able to transform its network quickly enough. POL believes this will make it both financially and competitively vulnerable (e.g. less able to grow the network or mutualise), unable to meet the needs of customers and increasingly reliant on HMG funding.
- To explain why POL is seeking to change NTP implementation from a voluntary to a scheduled, or mandated, approach. To support to this change POL will want to explain the different levers that were considered in the development of its strategy and also the alternative "menus" of levers that were considered (and why these are not considered to deliver a sustainable and fit-for-purpose network).
- To update you on and to seek approval to continue the work that is ongoing with the NFSP to agree a new approach to implementation. POL is working within parameters set by HMG and stakeholders to ensure a high level of support. At the same time with the NFSP it is developing an implementation strategy that delivers conversions while minimising customer and subpostmaster concerns.

5. Background

5.1. New Strategic Plan

The meeting gives POL management their first opportunity to talk to you about their new strategy which covers the period from 2015/16 to 2019/20. The plan is a continuation of POL's existing strategy – it builds on the platform that management has established since POL became independent in April 2012 and seeks to maintain the downward trajectory of HMG funding required by the business.

The strategy delivers a number of key milestones. These include:

- Delivering a financially sustainable POL that is less reliant on HMG funding, is more competitive and which is a strong long term partner for Royal Mail;
- Growing the post office network for the first time since 1964 more than [+] years, increasing the number of post offices by >10% to c.13,500;
- Establishing a platform that could enable a mutualisation of POL, and more collaborative working relationships with all stakeholder groups;
- Transforming a significant majority of the network to new models, making branches more viable, competitive and responsive to customer and client needs;
- Establishing POL as a credible challenger in the UK banking market through the launch of new financial services products;
- Making HMG services more accessible to vulnerable and working age people and supporting HMG's ambitions to make services digital-by-default; and
- Taking a more strategic approach to supporting customers, including launching new services and developing an integrated offer to support SMEs.

Commented [p2]: My earlier comment stands corrected!

5.2. Network Transformation Programme

In order to meet these milestones POL needs a fit-for-purpose network, and the successful delivery of NTP is crucial to achieving this. There is wide-ranging public support for the need for a transformed network, including from the NFSP, the BIS

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Committee and customers, however the original NTP was developed with an economic backdrop that differs materially to the current climate. This means that in its current form POL does not believe that it will be able to deliver the transformation successfully (e.g. subpostmasters are unwilling to volunteer to convert branches given uncertainties related to the broader economic environment, challenging retail markets and slow to emerge sales growth in new post office services including Government Services).

Commented [p3]: Should this be forecast rather than backdrop?

POL management has therefore proposed a move away from a wholly voluntary process to one that requires all subpostmasters to enter a business planning stage and schedules national "waves" of conversions. No post offices would be able to close under this strategy unless replacement subpostmasters (or alternative host retailers) have been identified and continuity of service in a community can be ensured.

This strategy also enables POL to identify those branches that are not financially viable and where a conversion – either onsite or offsite – is not possible. Such branches, which are expected to number c.3,500, would be deemed "Community" or "Outreach" branches – a new £20m fund would be made available for investment in these post offices.

POL is aware that it needs the support of key stakeholders, and in particular the NFSP, to deliver NTP successfully and that it needs to manage the concerns of customers and subpostmasters effectively. Management is therefore working with the NFSP to shape a strategy that meets its objectives, and one that the NFSP is able to publicly support (and in certain instances also work alongside POL to ensure its successful implementation). Any such strategy would also be structured in such a way that it is able to meet the objectives of HMG and POL's other stakeholders.

These discussions are ongoing and POL and the NFSP are moving forward towards reaching a mutually acceptable outcome (the most recent meetings were held on 8th and 10th July). An agreed strategy is likely to be based around the NTP plan that management has proposed, albeit with some changes. These changes, which are likely to increase the overall cost of NTP, could include:

- identifying "winners" from NTP and "Community" branches through a desktop assessment;
- restricting "mandated" conversions to exiting subpostmasters only, with "winners" managed in such a way that they are more likely to willingly convert;
- offering time-limited, phased or increased compensation to converting subpostmasters;
- bringing forward the opening of some new post offices to improve service provision sooner; and
- giving support to subpostmasters with a "retail support fund" to improve non-POL retail income.

5.3. Funding

POL believes that it can deliver NTP successfully within the £210m funding "ask" for 2015/16 that formed part of BIS's recent Spending Review settlement with HMT. However in order to secure the support of the NFSP it is likely that changes will be made to the strategy that increase the cost of implementation.

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Some of these costs can be absorbed by POL (e.g. by reprioritizing strategic initiatives, or by driving efficiencies elsewhere in the business) while it might be possible to phase others in such a way that they are incurred in later years (e.g. by increasing the funding “ask” for 2016/17). However some changes (e.g. changes to compensation paid to converting subpostmasters) are likely to increase POL’s funding “ask” for 2015/16.

Discussions with the NFSP are ongoing and both POL and the NFSP are acutely aware of the funding pressures on HMG and BIS. Both parties are therefore working to reach an agreement around a plan that delivers Value for Money for the taxpayer while ensuring the commercial benefits of NTP can be delivered and national and local concerns around the continuity of service provision can be minimised.

5.4 Update on NTP

As at the end of June POL had achieved ~~1,600~~ contract signatures and ~~821~~ open converted branches (of which ~~270~~ formed part of the 2012 piloting exercise). This compares to a target of ~~1,800~~ contract signatures by this time, and a target of ~~3,600~~ signatures for the end of the current financial year in March 2014. Of the converted branches that are currently open, ~~409~~ are Main post offices and ~~412~~ are Local post offices.

At the end of the last financial year POL had managed to secure ~~1,450~~ contract signatures, against a target of ~~1,200~~ and ~~507~~ open branches. However, this out-performance in contract signatures has completely unwound in the first quarter of 2013/14, and the company is not expected to catch-up under voluntary NTP.

The pace of conversions has been slower than expected by POL, primarily for the reasons listed above in subsection 5.42. POL has however learned a number of lessons over the past year and the implementation process is now more controlled, streamlined, flexible and efficient –(these lessons are being carried through to the new strategic plan) however, the current approach is not producing enough volunteers to achieve the 2010 target of 6,000 conversions by 2015.

CC List: Swinson MPST; Donnelly MPST; SPADs; ShEx POL team

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Points to Make/Questions to Ask:

Points to Draw From:

Opening Remarks:

- POL's new strategy is ambitious and I support what management is trying to achieve – we all want to see a sustainable and growing POL which is less reliant on HMG funding. However I understand that there are a number of risks in the plan that will make it challenging for management to deliver its objectives successfully.
- I would like to understand what you see as being the key risks in the plan and how you plan to address these. In particular I have questions around management's proposed change to NTP and the extent to which POL will both be able to secure the support of stakeholders and manage the national and local concerns of customers and subpostmasters.

Possible Questions:

- Why does POL feel there is a need to move away from the current voluntary approach to implementing NTP – POL met its targets for 2012/13 and I believe the business is also on track to meet targets set out for 2013/14?
- What other strategies did POL consider before landing on the proposed move away from a voluntary NTP? Why were these alternatives not seen to be able to deliver a fit-for-purpose network as effectively as the strategy that is being proposed?
- What is the risk to POL and other stakeholders from not successfully delivering NTP and why does POL need to put in place this change now? What is the benefit compared to implementing such a change after the end of the current funding agreement in 2015?
- When do you believe you will be able to reach agreement with the NFSP in relation to a new approach to implementing NTP? What do you think the incremental cost of this will be? How can you be confident that it will address national and local concerns around continuity of service provision?