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To: Jo Swinson
From: ShEx Post Office Team **GRO**
Date: 25 November 2014
Subject: Meeting with Paula Vennells, Chief Executive of Post Office Ltd (“POL”)



Purpose: This is a regular catch-up meeting with Paula, but usefully falls shortly after the publication of the POL interims, and a year since agreement of the POL strategic plan.

Attendees: Paula Vennells (Chief Executive); XXX (TBC)

Recommendation: That you seek Paula's commitments on the following points:

- The timing and scale of Network Expansion. How POL will assess the current pilot branches, and how they will secure the support of the NFSP;
- How POL is proposing to use the ‘Cliff’ – an important part of the 2013 Network Transformation (“NT”) agreement with the NFSP – to continue the delivery of NT; and
- How POL is faring against its mutualisation milestones in the face of a challenging stakeholder landscape.

Background:

In the year since you announced a further £640m to fund POL to 2018, much has been achieved: (i) the number of converted branches has more than doubled from 1,435 in Nov 2013 to over 3,500 now; (ii) POL has continued to engage with the NFSP on difficult issues such as ‘guided leavers’ and expansion, and is now running a pilot of over 150 new access points; (iii) although underperforming to budget, POL is broadly maintaining revenues in the face of unprecedented competition; and (iv) the company has held firm in pay negotiations with the CWU, crucially establishing principles and precedent for current and futures deals.

However, the company continues to face many challenges to secure its sustainable future and deliver value for this Government's historic investment: (i) the company is operating in a difficult commercial environment, feeling pressure not only from direct competition (i.e. Collect+) but also through its partnership with Royal Mail who are trimming growth forecasts; (ii) the company continues to operate in a highly complex stakeholder landscape, with the NFSP remaining unstable on key areas (primarily expansion, but also on the implementation of the ‘Cliff’); (iii) more widely, this is slowing progress on the mutualisation agenda; and (iv) the more easily transformed branches have now been converted under NT, but POL is yet to articulate its proposal for how to use the ‘Cliff’ to BIS (see below). You can usefully apply pressure to POL to develop and secure support for the ‘Cliff’ before election Purdah.

Network Expansion – ‘Mini Post Offices’: As you are aware POL has begun to expand its network for the first time in 50 years. Expansion is important in maintaining market share and defending revenues including for subpostmasters; but is not actively supported by the NFSP who have proved unreliable partners despite extensive engagement.

Agreement with the NFSP on the existing cohort of pilot access points was reached in September, but expires on 19 January. It is crucial that POL have a credible plan to continue to deliver their proposed expansion of the network after this date. **You can push Paula to be explicit about how POL proposes to continue its expansion agenda.**

Network Expansion is part of POL's wider work into the development of its network, which includes constant evaluation of Network Transformation, refining and improving its product offer, and working better with its commercial partners (crucially Royal Mail). POL is working collaboratively with Royal Mail in shared offices at Bishopsgate – ShEx encourages you to visit Bishopsgate to understand first hand POL's proposals, subject to diary constraints.

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The September 2015 'Cliff': The November 2013 agreement, which was endorsed by the NFSP, included the 'Cliff' which is the point in September 2015 after which POL can amend the compensation and investment available to subpostmasters and also withdraw or reduce fixed pay. By creating uncertainty around the continued availability of compensation and investment POL is able to incentivise subpostmasters to convert now, rather than to wait – delivering the benefits of NT sooner. This is a key element of the NT, and is the quid pro quo of the enhanced levels of compensation for exiting subpostmasters.

ShEx has been pushing POL to develop its proposal for the 'Cliff' but is still waiting. **You can usefully push Paula to commit to a timetable that sees agreement of the 'Cliff' prior to the election.** This is to ensure that the delivery mechanism of this more complex but necessary element NT is in place and not delayed by the 2015 General Election.

Mutualisation: you received an update on mutualisation on 19 November. Since 2010, POL and HMG have made considerable progress towards a mutualised POL, in spite of difficult financial and operational circumstances, and not least at a time when POL was asserting its own independence following the split from Royal Mail.

Nevertheless there is still much more to do to reach the final goal, both from POL's perspective in terms of achieving its milestones, and from the point of view of its main stakeholders who must also begin to change their mindset if the process is to work.

You might want to ask Paula – acknowledging the many challenges POL faces – **what activities are planned between now and May 2015 to make further progress towards the published milestones.**

POCA: At the time of drafting, there is tentative commercial agreement between POL and DWP. This has been a long and difficult process, with errors from both sides (e.g. the £10m upfront payment which was not compliant with HMG accounting rules and poorly communicated so that it was resisted by DWP to the very end of the process). While this can rightly be trumpeted as an important achievement publicly, POL must learn from mistakes if it is to be an effective negotiator with Government departments in the future. **You can seek Paula's agreement that her officials work closely with ShEx to ensure all lessons are learnt.**

Other live matters: There are a number of current matters affecting POL that you are aware of from previous briefing, noted below for reference:

- *CWU / Supply Chain industrial action:* POL is standing firm on the principles that pay awards must be self-funded. ShEx is supportive of this position.
- *Crown transformation:* POL has nearly completed the modernisation of retained branches to time & budget. Work continues to franchise a small number of branches.
- *VOA / Post Office ATMs:* The VOA has reached a decision that Post Office ATMs do not attract separate business rates. This is in line with the BIS position.
- *Business Transformation:* POL has an ambitious strategy to transform its core (non-network) business. It has secured the support of Unite, but not CWU. The reforms could see compulsory head office redundancies as the company moves to cut costs.
- *Chief Financial Officer:* This remains a highly confidential issue that is not widely known across the business. Discussions on exit terms are progressing.

List of annexes:

- Annex A – Key lines to take
- Annex B – Key Network Transformation facts sheet
- Annex C – Post Office Ltd's Christmas infographic

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Copied to: Cable MPST; Perm Sec MPST; SpAd MPST; BIS Finance; BIS Legal; ShEx PO Team

Advice Received From:

Finance	SpAds	Press	Legal	Analysts	
N/A	N/A	N/A	N/A	N/A	
Devolution Issues		N/A	Equality Analysis		N/A

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Annex A – Key lines to take

Scene setting:

- This is a timely meeting. It is a year to the day since I announced £640m further funding to 2018, bringing this Government's commitment to nearly £2billion.

Network Transformation:

- Pleased to note the acceleration in delivery of NT over last 12 months. This is bringing benefits to customers and the taxpayer and pace must continue.

The 'Cliff':

- A key element of the 2013 agreement was converting the whole network. I am keen to learn about your proposals to use the 'Cliff' before the end of January.

Network Expansion:

- Strongly welcome the piloting activity POL is undertaking. What are your plans to build momentum in this area to protect POL market share and taxpayer investment?
- I have been clear with the NFSP that there can be no guarantees about SPM income but am keen to understand how you plan to handle the NFSP.

Relationship with the NFSP:

- The NFSP has expressed concerns about expansion and delivering NT generally. How are you engaging them and what is the future of the POL / NFSP relationship?

Mutualisation:

- Good progress has been made, and I am looking forward to joining the March 2015 POAC meeting.
- Understand the difficult stakeholder environment, but recent progress appears to be limited, how are you driving the agenda?

Business Transformation:

- I fully support POL taking decisive action to cut costs and improve its financial sustainability. But this must be handled carefully and not become protracted.

CWU strike threat:

- I appreciate that POL has a tricky stakeholder landscape, particularly with the CWU. I remain fully supportive of POL's negotiating principles that a pay award is fully funded.

Interim results:

- Obviously a difficult trading environment – the interim results are disappointing. This underlines the importance of delivering NT quickly to ensure long-term sustainability.

POCA:

- I am delighted that in principle agreement has finally been reached. My officials will continue to engage yours to ensure lessons are learnt for the future.
- What does this mean longer term for POL's strategic plan and POL's ability to reduce its reliance on taxpayer support?

Other Government Services:

- Ministers remain supportive of POL's ambition to provide front office services and work across Whitehall is progressing in designing new service requirements.
- I recently attended Cabinet committee to secure clarifications on how POL can be part of the Digital by Default transformation, not in conflict with it.

ATMs and the VOA:

- The VOA has taken a decision that Post Office ATMs will not attract business rates.