
From: Jarvis, Tim (Consumer & Competition) [GRO]
Sent: Fri 16/02/2018 3:46:03 PM (UTC)
To: Permanent Secretary [GRO]
Cc: Permanent Secretary [GRO]; Samant Jaee (Market Frameworks) [GRO]
Subject: RE: [OFFICIAL: SENSITIVE] OFFICIAL SENSITIVE: POL Options Paper
Attachment: 2018 02 12 Submission to Perm Sec on POL future options.docx
Attachment: 2018 02 12 Post Office and future Strategic Options.docx

Henry

Alex asked for my thoughts on the POL options paper from UKGI.

The sub raises two separate but linked issues: strategic options for POL and future arrangements for policy sponsorship. I'll take my comments in that order.

On the strategic options, the paper makes, in my view, a persuasive case that the status quo is not sustainable beyond the next 2-3 years and therefore we should be thinking about options now. With commercial sustainability arguably forecast to be achieved in 2021 and a board agitating for change, we need to be starting to work on alternatives this year with a view to taking preferred options forward in 2019. I am less persuaded that there is a strong case for immediate change. The argument that the previous funding round engaged a lot of resource within BEIS and HMT, and ministerial time and political capital, should not be a strong driver of new policy. Similarly, the fact that UKGI has obtained exceptions from MPM prohibitions suggests that there is scope for flexibility in the current regime albeit difficult to secure.

Looking at the non-status quo options, I am not a fan of the mutualisation, English Heritage models. Mutualisation, in my view, risks becoming the default compromise between public ownership and privatisation. However, for it to work, there needs to be a clear coalition of interests based on a long-term asset base. One can see this in building societies where customers have a long-term interest in the company of which they own a share through their mortgages and savings. It is not clear to me that the short-term transactional customer interactions in a post office are analogous. The long-term relationships through, for example, paying weekly pensions, are trust based rather than financial and likely to be particular to the current generation of pensioners; and therefore, by definition, not long-term. In the absence of an appropriate coalition of interests, a mutual PO would risk being run for the benefit of the employees and inefficient. As the note says, it also doesn't help the access to funding point as members of the mutual would not have financial strength and there would not be a huge amount in terms of assets against which to borrow (again contrast with the building society model). On the English Heritage model, I can't see why charitable status would be an appropriate fit and government would still be the source of financial support.

While privatisation would therefore seem to make the most sense economically, I suspect it will be politically difficult in the medium term (3-5 years). My view is that the benefit system would need to move away from its reliance on PO payments before privatisation would be viable and my understanding is that we are still some way from that at the moment. Once we have done so, the case for protecting uncommercial branches becomes less strong. I would need to think more about the advantages/disadvantages of reintegration with Royal Mail. I am not sure it necessarily fits and as each is the biggest customer we would need to think about the effect on competition. If they were both currently privatised and they wanted to merge we would likely want a full assessment of the effect on competition and while there would no doubt be a strong efficiencies argument from a vertical integration it would need to be tested.

My instinctive preference in the medium term would therefore be option 2. This could help prepare for privatisation and works well with TfL. It would solve the immediate problem of allowing POL to raise its own funding and would enable a smoother and more gradual move towards full privatisation.

On the question of policy sponsorship, I have had initial discussions with Kate Marshall. There are obvious arguments for putting it with the rest of postal policy but we would need to think carefully about governance. Having responsibility in the same team for sponsorship of a privatised Royal Mail and a publicly owned post office when each is the other's biggest customer is fraught with problems especially if Royal Mail was to be a prospective buyer of POL. There would therefore be a case for keeping the split even within different parts of BEIS e.g. having a sector team taking policy responsibility for POL.

From a personal perspective as director of CCP, I would also urge a rethink and take this as an opportunity to think about a potential reallocation of responsibilities. I am interested in the post portfolio and enjoy working on the issues arising from our relationship with Royal Mail. However, it is an anomaly that it sits in CCP and it is not at all obvious to me why it does. There is very little synergy with the other work of the directorate and it makes resourcing an already stretched bunch of disparate teams even more difficult. Developing options for POL under a new policy sponsorship role would require a significant expansion of resources which could obviously be done but is even further removed from CCP's core work (or MF for that matter) e.g. at least Royal Mail has some link with our overall responsibilities for economic regulation. I am acutely aware that there are other policy areas across BEIS that might more logically fit with CCP in the longer-term (e.g. state aid) and if I were to take post as well the directorate would top 100 people if we were to support these functions effectively. This is not a problem in and of itself with the right structures – and I am probably as prone to empire building as the next person(!) – but I am not sure there is a strong strategic fit and this risks whoever being the director spreading themselves too thin.

Happy to discuss all this obviously should Alex find it useful.

Regards
Tim



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From: Permanent Secretary [GRO]
Sent: 14 February 2018 11:42
To: Jarvis Tim (CCP)
Cc: Permanent Secretary
Subject: FW: [OFFICIAL: SENSITIVE] OFFICIAL SENSITIVE: POL Options Paper
Importance: High

OFFICIAL: SENSITIVE

Hi Tim,

Alex asked if you could review the attached and let him know what you think about proposed future options. Would this be possible over the next few days?

Happy to discuss.

Best

Henry

Henry Carruthers
Private Secretary
Alex Chisholm, Permanent Secretary, BEIS

GRO

permanentsecretary

GRO

GRO

OFFICIAL: SENSITIVE

From: Callard, Richard - UKGI

GRO

Sent: 12 February 2018 17:02

To: Permanent Secretary

Cc: Russell, Mark - UKGI; Adegun, Oluwatosin - UKGI; Callard, Richard - UKGI; Clarke, Stephen - UKGI; Cooper, Tom - UKGI; McInnes, Tim - UKGI; Parker, Nick - UKGI; Thompson, Laura - UKGI; De Niese Damian (CPG); Maghrabi Syed (Finance); Sparks Leah (Finance & Portfolio)

Subject: OFFICIAL SENSITIVE: POL Options Paper

Importance: High

Henry

As discussed, please find attached the paper on future POL options, which has been reviewed by the BEIS governance partner and BEIS Finance. This has been raised at the UKGI board briefly, so Alex will be aware of it. We'd like to get his view on whether this should be taken forward now, and any other thoughts he might have.

It's not urgent, but grateful if it could be considered in reasonably good time so that we can take it forward, or not, as the case may be.

Kind regards

Richard

Richard Callard | Executive Director | Post Office Shareholder Team, Geospatial Commission Set Up Team

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