

Post Office: Update for Robert Swannell re meeting with Tim Parker (30th March 2017)

Background (For your information only)

- UKGI has now finished its due diligence on POL's funding request and is broadly supportive of its IRRELEVANT task (for the period April 2018 – March 2021).
- Based on our own work, and that of KPMG, we will be recommending to Ministers that they grant POL funding of c10% less than that amount, to sharpen POL's pencil and ensure we maintain pressure on costs. Note that POL are unaware that we will propose a 10% cost challenge.
- This needs to be agreed with HMT, and we are working with them to explain the funding requirement. From their perspective, this is a large funding request which they are seeking to minimise (and politically they are less concerned with the consequences of insufficient funding).
- The funding process has taken longer than expected, for a number of reasons: it is a large complicated funding requirement, it did not countenance HMG's affordability constraints, it contained a number of shortcomings that needed to be worked through.
- Tim will state the importance of agreeing a funding package by the end of May. There are two main reasons for this (which we agree with):
 - POL are entering in to a number of key negotiations around that time (back office IT, Royal Mail, Bank of Ireland), and the business needs the commercial confidence created by a confirmed funding package, to be able to negotiate strongly and have "walk away" optionality
 - The business will have net liabilities on its balance sheet at the year end. Whilst we should have put interim arrangements in place by that point to address any immediate going concern issues, a larger funding package will offer the Board greater assurance and will allow them to press on with their current strategy rather than being concerned about whether they have sufficient funding to carry out that strategy in the longer term.
- We have agreed in principle with HMT to resolve these issues by the end of May, but these matters are necessarily tied to other BEIS funding requests, so the risk of "drift" beyond that date remains. Clearly we will do all we can to mitigate that risk.

Key messages to make to Tim

- Team here grateful for all the efforts made by those at POL, particularly Martin Edwards (Director of Strategy)
- Funding request was large when considering other pressures Government faces. That hasn't helped in terms of getting funding agreed
- We are very aware of the increasing urgency of this, as are Ministers and HMT. We are all working to an end of May deadline but that is not entirely within our control.
- UKGI team finished their work on this at the start of March, our task is now about taking HMT through the arguments to provide advice to their Ministers (as well as our own).