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To: Jo Swinson
From: Tim McInnes **GRO**
Date: 19 February 2015



Subject: Meeting with National Federation of SubPostmasters (“NFSP”)

Purpose: To encourage the NFSP to work collaboratively with POL on all “live” issues, not just the ones that are an immediate priority to the NFSP. This will ensure that Network Transformation can be delivered in line with planned timelines and that POL is able to respond effectively to the competitive threats it is facing.

Timing: You are meeting the NFSP on Tuesday 24 February.

Attendees: **GRO** (General Secretary); **GRO** (Commercial and Network Director); and **GRO** (Chair Negotiating Committee). ShEx will also attend the meeting.

NFSP Objectives: You last met the NFSP in November 2013. We understand at this meeting they will want to talk to you about Network Transformation (in particular the “Cliff”), Network Extension and also potentially the Horizon mediation scheme.

Recommendation: That you make the following key points:

- Despite the good progress POL has made recently more needs to be done to protect the network; in particular the actions set out in the 2013 plan need to be taken forward;
- The NFSP executive and its membership supported the 2013 plan, including enhanced compensation for exiting subpostmasters and more support for converting operators;
- This also included the Transitional Local process, the concept of the “Cliff” in September 2015 and the option to open up to 2,000 new access points;
- POL and the NFSP must work together to make progress in these areas. This is key to protect the long-term future of the post office network and taxpayers’ historic investment;
- Government has committed funding for all elements of this plan to March 2018 including to complete Network Transformation. There is no prospect of further funding; and
- At the same time POL faces many competitive challenges and it needs to respond to these. The NFSP has an important role in making sure progress can be made.

Note: Annex A contains suggested key lines to take

A. Background

1. In November 2013 the NFSP executive and its membership voted in favour of POL’s “Vision 2020” strategy and in particular: (i) changes to Network Transformation (e.g. enhanced compensation and support, Transitional Locals, the “Cliff”); and (ii) a new future funding model for the NFSP. The concept of Network Extension was discussed and although the NFSP leadership expressed private support for this (e.g. they saw the strategic need to respond to the competitive threats POL faces) formal agreement was not reached (e.g. individually subpostmasters see Network Extension as cannibalising revenue). It was expected that negotiations on Network Extension would take place during 2014 alongside other discussions with POL.
2. Considerable progress has been made over the past 16 months in relation to Network Transformation, in large part due to the enhanced compensation and support now available. Progress has also been made with the Transitional Locals process which appears to be going well. The NFSP’s “active support” (i.e. which it offered to POL in November 2013) has primarily taken the form of non-resistance; there has been very limited evidence of the NFSP getting involved on a network-wide basis or day-to-day.

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3. POL has been in discussions with the NFSP since the 2013 agreement was reached, primarily on business-as-usual matters. The nature of the dialogue has improved and we have been reassured by the progress both parties have made in working collaboratively. However recently POL's discussions with the NFSP have become turbulent, primarily due to negotiations around the NFSP's future funding model.
4. This meeting is therefore a timely opportunity to: (i) remind the NFSP of Government's support for POL and Network Transformation; (ii) remind the NFSP of the need for POL to be commercial and respond to competitive threats it faces; and (iii) encourage the NFSP to continue to work collaboratively with POL to deliver progress on all fronts (i.e. not just the NFSP's future funding model). Together these will help to protect the long-term future of the post office network.
5. We expect that the NFSP will want to present themselves as keen to see progress and they may highlight POL as the unreasonable party (e.g. they want to move forward in relation to their future funding and aspects of Network Extension). However the conditions the NFSP have proposed in these areas, and their lack of willingness to engage more broadly, puts POL in a difficult position. It would simply not be appropriate (or commercially rational) for POL to accept the NFSP's current proposals.

B. The Grant Agreement

6. New subpostmasters are less likely to want to be members of the NFSP than existing subpostmasters which means that over time, as the network churns, the NFSP's membership falls. This decline, which is accelerated by Network Transformation, raises important questions for the NFSP – i.e. in relation to how the organisation will fund itself in the future and also whether it will still be relevant in its current form. POL is sympathetic to these challenges and as management see value from a body that represents operators, it agreed in November 2013 to a memorandum of understanding which set out parameters for discussions on: (i) what a future NFSP might look like and the role(s) it might play; and (ii) based on (i) how such an organisation could be funded.
7. Discussions have been progressing slowly since November 2013. In July 2014 a draft 15-year Grant Agreement was agreed between the two parties' negotiating teams which formed the basis for a "new" NFSP (e.g. more akin to a trade body than a union-like organisation) and set out a direct funding model whereby POL would provide up to £1.5m in annual grant to support the NFSP's operating costs plus up to an additional £1.0m to fund specific services (e.g. training, resolution of service issues and business development). The NFSP took this draft to its executive in the Summer of 2014.
8. Soon after it was taken to the NFSP executive the Grant Agreement was leaked; this caused the NFSP to change its position, seeking greater comfort and concessions from POL. It replied to POL with a revised Grant Agreement in August 2014 and negotiations have been ongoing around this ever since. Recently they have reached an impasse over one new aspect that has been introduced by the NFSP – a "termination payment".
9. The NFSP has proposed a "termination payment" equivalent to 3-years funding (i.e. a lump sum payment of c.£7-8m) in the event, for whatever reason, the Grant Agreement is ended early. The NFSP has also sought to "water down" triggers for the agreement's "termination clause". While it is important that the NFSP has protections against the relationship ending the proposed structure of this payment, and the new triggers, are considered unreasonable by POL. For instance if the NFSP breaches the terms of the contract (e.g. by publicly coming out against Network Transformation) and POL were to terminate the agreement, it would have to make this payment. This is not a position POL or ShEx can support – it is not commercial and it does not represent Value for Money. A termination for breach of contract should not ideally be compensated.

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10. POL has proposed keeping the existing triggers for the “termination clause” but adding a “break clause” after 5-years when both parties can walk away from the agreement. POL is also keen to push back on the concept of a “termination payment” although it has been clear that it would not enter an agreement on the expectation it would be terminated at any point, to give the NFSP comfort. This ensures both parties’ interests are aligned while also giving them both a window to walk away in the future. In these circumstances POL might be willing to make some form of payment to the NFSP to ensure that its long-term viability is not put at risk, but this is subject to negotiation.
11. POL genuinely wants a long-term relationship with the NFSP and we know the Grant Agreement represents the NFSP’s preferred course of action, although POL believes it is currently playing “hardball” in its negotiating position. The agreement gives the NFSP long term funding certainty and independence and the opportunity to strengthen its capabilities to add more value to its members. POL is keen to see a more secure and capable NFSP that can work alongside it collaboratively, to strengthen the network.
12. The NFSP are also in discussion with the CWU about a possible merger. While we do not see the rationale in this (e.g. it does not give the NFSP the same security over its funding or its independence, there are significant cultural differences between the two and we do not believe the overall NFSP membership would view this favourably) we cannot exclude this as a possible outcome if negotiations with POL continue to stall.
13. **Note: These are live discussions and the information above is for your background information only. You should encourage the NFSP to work with POL to find middle ground on the Grant Agreement; while the NFSP rightly needs protection, POL can only enter an agreement that is commercially appropriate. POL has a meeting scheduled with [REDACTED] GRO [REDACTED] at the end of next week to discuss the Grant Agreement alongside the “Cliff” and Network Extension although it is currently uncertain whether this will take place.**

C. The September 2015 “Cliff”

14. POL's November 2013 agreement with the NFSP included the "Cliff" (i.e. the point in September 2015 after which POL can amend the compensation and investment available to subpostmasters and also withdraw or reduce Core Tier Payment). POL has been doing considerable work in recent weeks on this and has sought to engage with the NFSP. To date the NFSP has resisted engagement, seeking instead to prioritise work on the draft Grant Agreement.
15. POL has documented support for the "Cliff" from 2013 and its plans today are aligned to the parameters set out at that time (although the NFSP might challenge this view). Therefore while we encourage POL to seek the NFSP's formal support for the "Cliff" the lack of a joined-up approach should not necessarily stand in the way of progress. Also even with dialogue it might not be possible for POL to secure the NFSP's support.
16. We do not believe that the NFSP knows what POL is planning to do with the Cliff from January 2016 (i.e. withdraw the Core Tier Payment) and that notice of this will be given in June 2015. This means that when engagement does start the NFSP is likely to react negatively; they will likely claim this is taking place earlier than discussed in 2013 – which is untrue – and use it as an opportunity to try and extract more funding and compensation from POL. It is very likely that the NFSP will push for more compensation to be paid to subpostmasters converting to Main model branches.
17. Since most of these branches will not be materially worse off after converting (i.e. they receive investment in their branch, a transition payment and their income is protected for up to 3 years) there is no sound basis for additional compensation. It should be noted that both [REDACTED] GRO [REDACTED] and [REDACTED] GRO [REDACTED] operate these types of branch.

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18. It is also worth noting that almost 50% of the NFSP's executive has converted under Network Transformation, including the NFSP's National President, its National Vice-President, its Treasurer and a number of regional representatives. This also includes Ian Park who will attend the meeting alongside George Thompson and Mervyn Jones.
19. POL believes that the NFSP think the "Cliff" will see it compulsorily changing the contracts of the 1,200 subpostmasters affected by its actions to Local or Main model contracts. This is not true as POL is currently planning only to amend existing contracts, giving notice that the Core Tier Payment will be withdrawn. This means it is important for the NFSP to engage with POL so that they are informed of POL's plans.
- 20. Note: POL is trying to engage the NFSP on the "Cliff" and as such the details above are for your background information only. POL has a meeting scheduled with George Thompson at the end of next week to discuss the "Cliff" and Network Extension alongside the Grant Agreement although it is currently uncertain whether this will take place. You should therefore encourage the NFSP to engage with POL. It would also be useful to remind the NFSP that the agreement reached between POL and the NFSP, and the £640m funding committed to support this, included the "Cliff". No further funding is available.**

D. Network Extension

21. In October 2014 POL reached agreement with the NFSP around a limited Network Extension pilot that saw c.150 Mini Post Offices open across the UK. In the run up to this agreement the NFSP had tried to restrict the number of access points that could open near existing branches, but POL resisted as this represented an important part of the pilot. The agreement expired in January and for POL to take forward any more pilots we expect it will try and seek the NFSP's support (i.e. to avoid vocal opposition to the openings and also withdrawal of the NFSP's support for Network Transformation).
22. Network Extension is important to enable POL to respond to pressures in the mails and bill payments markets where competitors have an edge in terms of technology, cost and access. POL will want to undertake more piloting activity in the near future and it is therefore important – for the future of the network, including for existing subpostmasters – that POL has freedom take this forward. NFSP support is therefore important. The NFSP leadership privately support the need for a more accessible network in urban environments, but they have publicly spoken out against POL's plans.
23. The timing and shape of future piloting is still to be confirmed but we do expect some activity to take place in the Summer when an early version of the new technology solution will be ready and that this will include a wider range of mails services than is available at Mini Post Offices. Other services will not be added until early Autumn (e.g. bill payment, cash withdrawals and foreign exchange). POL is also taking forward discussions with retailers which might host future pilots – these are ongoing and importantly have included the idea of "whole estate" deals which the NFSP do not support. POL will ideally want to have NFSP support before any further activity takes place but to date they have refused to engage (i.e. focus on future funding discussions).
- 24. Note: POL has a meeting scheduled with GRO at the end of next week to discuss Network Extension and the "Cliff" alongside the Grant Agreement although it is currently uncertain whether this will take place. You should therefore encourage the NFSP to engage with POL. It would be useful to remind the NFSP that POL is facing severe competitive pressures and that new access point pilots are a key part of it working out the best response to this. The NFSP can play an important role in shaping this work.**

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E. Other

25. Horizon Mediation Scheme: Further advice on this matter will follow shortly, but it is worth noting that GRO was very supportive of POL during the recent BIS Select Committee hearing and does not consider there to be faults with the Horizon system. He is however privately critical of POL for not having closed this issue down sooner. While the mediation scheme is independent of Government, you may wish to seek GRO views on the issue.
26. Transitional Locals: Since July POL has been making good progress with this process; it has engaged with 573 of the c.800 branches and second visits have been arranged or completed with 390 of these. Not all of these branches have expressed a preferred course of action yet although 138 have volunteered to leave the network and 98 will be submitting a financial assessment. In November 2013 the NFSP indicated they would support implementation of the Transitional Locals process but to date they are not known to have given any active support to POL. This is unfortunate.
27. Government Services: ShEx is continuing to work with colleagues across Whitehall and at POL to make progress in relation to specific Government Services opportunities; near term progress is most likely with HM Passport Office (e.g. in-branch renewals) and Cabinet Office (e.g. online ID Assurance pilots). These are commercially confidential discussions and it would not be appropriate to discuss them in detail with the NFSP.
28. Business Transformation: The NFSP has been historically critical of POL's central costs and may raise these in your meeting. POL is taking actions to address this and management is targeting cost savings approaching £100m a year by the end of 2015/16. This is an ambitious target and it should have the NFSP's support.
29. Subpostmaster Remuneration: The NFSP may raise ongoing concerns about falling subpostmaster incomes (e.g. DVLA renewal in 2012, withdrawal of road tax discs). This reflects the intensely competitive marketplace POL operates in, which underlines the importance of Network Transformation in moving branches into sustainable retailers and for POL to respond to the threats it faces in the most appropriate way.
30. Ian Murray Interview in the "Subpostmaster" Magazine: Ian Murray MP was interviewed in the most recent issue of the NFSP's Subpostmaster magazine (see Annex II). The questions were predictable and included: POL's relationship with Royal Mail and the Universal Service Obligation; opportunities for POL to win more Government Services work; and planned future reductions in network subsidy.
31. Engagement: A common NFSP concern is the purported lack of engagement from POL, which is disputed by POL (see Annex III).

F. List of Annexes

- Annex I – Key Lines to Take
- Annex II – Ian Murray MP Extract from the Subpostmaster Magazine
- Annex III – Engagements Between POL and the NFSP on Network Expansion

Copied to: Cable MPST; Hancock MPST; Clarke MPST; Perm Sec MPST; SpAd MPST; BIS Finance; ShEx POL 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 I – Key Lines to Take**General**

- Reassured to see the progress POL has made recently in its efforts to protect and grow revenue. This should benefit subpostmasters in the long run.
- December's POca announcement was a particularly welcome step, as was the launch of Post Office Money and the VOA's decision not to separately rate ATMs at subpostoffices.

Network Transformation

- Support continued progress with more than 4,800 branches now signed and over 3,800 open. However as time passes this momentum gets harder to maintain.
- Customers are seeing real benefits and subpostmasters are gaining from investment and the changes that Network Transformation enables.

Community Branches

- Delighted that these branches have been protected under this Government and that subpostmasters are engaging with POL to improve their branches.
- More than 300 subpostmasters have now applied for funding of more than £2m. This is a good start – real improvements are being seen in communities across the UK.

The September 2015 “Cliff”

- Encourage engagement on the “Cliff” in order to maintain progress in Network Transformation and make sure the strategy can be completed.
- This is an important part of the plan that the NFSP signed up to in November 2013, backed by £640m new funding. There is no additional funding available.

NFSP's Future Funding – The Grant Agreement

- Encourage engagement on the Grant Agreement, accepting that while it is important the NFSP is protected an agreement must work for POL too.
- Note that POL genuinely wants to make progress with this and that it is a great opportunity for the NFSP to shape its future. POL can see the benefits the NFSP brings.

Network Extension

- Encourage engagement on Network Extension; the NFSP has an important role to play in shaping this work but it cannot be allowed to stand in the way of progress.
- POL needs to be able to pilot Network Extension to understand the right response to the competitive threats it is facing. This will benefit existing subpostmasters in the long-run.

Transitional Locals

- POL has engaged c.600 subpostmasters in the Transitional Locals process. This is an important element of the network strategy endorsed by NFSP members in Nov 2013.
- Good progress is being made and a number of subpostmasters are taking this as an opportunity to improve their performance. The NFSP should actively support the process.

Other Government Services

- Ministers support POL's ambition to provide front office services for Government and work is taking place across Whitehall to take forward a range of opportunities.
- However Government cannot simply award work to POL, as this would be illegal. That said POL does have a good track record of winning work competitively.

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Annex II – Ian Murray MP Extract from the Subpostmaster Magazine

Interview

Q Does Post Office Ltd (POL) have a long-term independent future outside of Royal Mail?

Absolutely. The Post Office reaches millions of people up and down the country, providing access to important services. We must also emphasise the significant social aspect to communities. That reach means that expanding the range of services and commercial activities at post offices is vital to ensuring that long-term future. We should also focus on strengthening the historic ties between the Post Office and Royal Mail which in recent years have been weakened by the privatisation of Royal Mail. Royal Mail, and the Post Office's vast network has been, and should always be, closely connected. One way to prioritise the future of the network is by working to ensure Royal Mail services continue to be provided exclusively through post offices beyond 2022, when the current Inter-Business Agreement (IBA) ends. The Post Office is in the DNA of the country and it is incumbent on us all to give hardworking subpostmasters the support they need.

Q Will Labour reverse the decline in government services at post offices?

I want to see more government services provided at post offices. That's what we've campaigned for whilst in opposition. There is huge potential to work in partnership and use the impressive post office network to engage with and provide services to communities. It was wrong of the government to say they wanted to make the Post Office 'the front office of government' and then not deliver on that promise. Labour will need to address this and look at new ways that central, devolved and local governments can use the Post Office. This would enable the Post Office to move onto a firmer financial footing, with less reliance on a government subsidy. It has to be a cross-government agenda where the use of the Post Office is the first thought of all departments – there is significant potential in identity services as an example.

GRO

Your questions answered

We put your questions to Ian Murray, Labour's Shadow Minister for Postal Services

Ian Murray was elected as MP for Edinburgh South in May 2010. He was previously an Edinburgh City Councillor, and ran his own events management business.

Q What will your first action be if appointed as postal services minister following the election?

If I am privileged enough to be a minister in the next Labour Government, my priority will be ensuring that right across government we consider the way services are delivered in the context of the Post Office, bringing in local authorities leaders and business groups too. There is huge potential and we should maximise that. I would also like to see a significant expansion in the financial services offered and strengthening partnerships with high street banks.

Q Will you make it easier for customers to open a Post Office card account?

The recent decision by the government to retain POCA was the only sensible decision for consumers, small businesses and for the government. This new contract is valuable for the post office network but the dither and delay on POCA was unnecessary. I recognise the value of POCA and its value to 2.5m people, including over 1.3m pensioners. If you're one of the million people who can't get a regular bank account, it's a nightmare, especially with new benefit changes. POCA could be really suited to those people who struggle to open a basic bank account. Therefore, government needs to make sure that the processes by which these accounts

are opened are easy and accessible as possible whilst protecting the integrity of the system. More POCA's will also bring more revenue which NFSP members will welcome.

Q Is Ofcom correct in its view that the Universal Service Obligation (USO) is not under threat?

We were right to call for the regulator to look at this sooner and Ofcom is right to keep this matter constantly under review. Labour wants to see the USO secured beyond 2022 and has called for other postal operators to be held to the same high-quality performance and service standards as Royal Mail. The USO is the foundation of the postal service in the UK. It guarantees fairness and standards for all citizens wherever they live. The Royal Mail report submitted to Ofcom on the effect of competition on the USO and the threat to the USO made for concerning reading. The report says that alternative providers have grown quickly and are 'cherry-picking' profitable inner city postcodes to such an extent that the economics of the USO could be undermined. The next Labour government will ensure the USO is strengthened and put on a more secure footing.

Q How important is it for subpostmasters to develop a strong retail business?

The importance of the retail side of post offices has increased significantly in recent years. So it's important government supports subpostmasters who run retail as well as other services. The next Labour government will cut - then freeze - business rates, benefiting 1.5m businesses, including subpostmasters. We will also cap energy prices to fix the broken energy market. The bottom line though, is that we need to make sure as much as possible goes through the Post Office to keep it sustainable in its own right. Retail operations help that process and allow customers a much wider choice of services when using the Post Office.

Q Could government plans to substantially reduce the Network Support Payment made to POL jeopardise the future sustainability of the network?

We recognise that over the next parliament, the Post Office will continue to require a government subsidy. The level of that payment will depend on the success of the network. Clearly, there are parts of the rural and village network that will always require support and that will continue. All parties recognise the important role post offices and subpostmasters play; and that without the right support, the network would be placed in a precarious position and we can't allow that to happen.

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Annex III – Recent Record of Engagements between POL and the NFSP

Note: Interactions between POL and the NFSP typically touch on other issues beyond the main agenda item(s). In addition on many recent occasions POL has sought to engage on other topics (e.g. the “Cliff”) but this has been resisted by the NFSP.

Date	Type	Main Agenda Item
4/16/2014	Meeting	Network Extension / Development
4/23/2014	Meeting	Network Extension / Development
6/3/2014	Meeting	Network Transformation; Network Extension / Development
7/17/2014	Meeting	Strategy; Network Extension / Development
7/23/2014	Meeting	Strategy; Network Extension / Development
25/7/14 - 4/8/14	Call / Conversation	Network Transformation
8/11/2014	Meeting	Network Transformation
8/14/2014	Meeting	Network Transformation; Network Extension / Development
8/20/2014	Meeting	Business Transformation; Network Extension / Development
8/21/2014	Meeting	Network Extension / Development
8/21/2014	Social	General; Network Extension / Development
8/28/2014	Meeting	Network Extension / Development
9/9/2014	Meeting	Network Extension / Development
9/10/2014	Call / Conversation	Design Lab Visit; Network Extension / Development
9/11/2014	Email	Network Extension / Development
9/11/2014	Call / Conversation	Network Extension / Development
9/16/2014	Call / Conversation	Network Extension / Development
9/18/2014	Meeting	Network Extension / Development
9/18/2014	Email	Network Extension / Development
9/18/2014	Email	Network Extension / Development
9/24/2014	Call / Conversation	Network Extension / Development
9/24/2014	Email	Business Transformation
9/25/2014	Email	Network Extension / Development
9/26/2014	Email	Network Extension / Development
10/2/2014	Call / Conversation	Government Services
10/9/2014	Meeting	Network Extension / Development

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10/15/2014	Call / Conversation	Network Transformation; Network Extension / Development
10/21/2014	Meeting	Government Services; Special Conference Plans
10/24/2014	Meeting	Network Extension / Development
11/6/2014	Meeting	Grant Agreement
11/7/2014	Meeting	Network Extension / Development
11/12/2014	Meeting	Network Extension / Development
11/20/2014	Meeting	Grant Agreement
11/21/2014	Meeting	Grant Agreement; Network Extension / Development
12/1/2014	Meeting	Network Extension / Development
12/3/2014	Meeting	Grant Agreement
12/5/2014	Meeting	Network Extension / Development
12/8/2014	Meeting	Network Transformation
12/11/2014	Meeting	Grant Agreement; Horizon
12/18/2014	Meeting	Grant Agreement
1/8/2015	Meeting	Grant Agreement
1/9/2015	Meeting	Network Extension / Development
1/15/2015	Meeting	Grant Agreement
1/16/2015	Meeting	Grant Agreement
1/20/2015	Meeting	Grant Agreement
1/21/2015	Meeting	Grant Agreement; the "Cliff"
1/22/2015	Meeting	Grant Agreement; Horizon
1/23/2015	Email	Grant Agreement
1/29/2015	Meeting	Grant Agreement
1/30/2015	Email	Network Extension / Development
2/4/2015	Call / Conversation	Grant Agreement; Horizon
2/5/2015	Meeting	Grant Agreement
2/5/2015	Meeting	Network Transformation
2/10/2015	Call / Conversation	Grant Agreement