

Prep for Margot James Meeting 4 August 2016

- Separated from RM in 2012
- 11500 branches across the UK – mix of types of offices, all but 300 run by independent subpostmasters
- Services provided: mails, financial services, Govt services, other (telephony, cash distribution)
- Govt policy (explicit and implicit)
 - Manifesto – secure 3000 “rural” branches, really means “community” branches being the last shop in the village (or urban deprived area)
 - Informal policy – maintain c11,500 branches, reduce taxpayer burden, act commercially and independently.
- HMG funded POL £2bn between 2011-2018 - half subsidises the network, half is “invest to save” transformation funding
- We act as shareholder – operational decisions made by business (offers protection to Govt from the more difficult decisions)
- Has independent Board, with really good commercial experience. Strong chair in Tim Parker. Big shift in organisational culture as it emerges from Royal Mail’s shadow
- Performance improved significantly over last few years, going from loss before subsidy of -£119m in 2012, to -£25m last year. Target loss of -£10m this year.
- Network most stable for decades, 6000 branches transformed, 200,000 extra opening hours *per week*, 3,500 branches open on a Sundays (largest Sunday retail network)
- Subsidy requirement coming down (peak of £210m in 2012/13, £80m this year)
- So, overall, a positive story, but some big decisions coming up, things to know, longer term policy decisions to consider

BIG DECISIONS COMING UP

1. Funding

- Got funding to March 2018 – discussions happening over Autumn for post 2018
- Had £2bn in funding – half subsidy, half investment
- At the last funding round in 2014, expectation had been that we would need c£50m p.a. post-2018, and we tentatively secured that in the SR 2016
- POL considers there is more to do:
 - Franchise the remaining directly managed Crowns
 - Next evolution of branches (small mains, community branches)
 - Central cost restructuring
 - Improvement of digital
- POL coming to us with proposals next month:
 - Lot to do, lots of variables
 - POL will always need some funding
 - Need to understand your appetite for further funding beyond minimum
 - Need to start discussions soon despite Mar 2018 being 18 months away (due diligence takes time, state aid process to go through, certainty etc)

2. Network Consultation

- Funding requires approval from the Commission as state aid
- Still in the EU for now, same or similar rules will apply if we join the EEA or EFTA
- During last state aid approval Commission said we would have to undertake a public consultation next time round (last one done 10 years ago)
- All drafted, pinned on EU, delayed until after the referendum
- Question how you want to position it:
 - Fear: could be misconstrued as prelude to closure programme
 - Seems odd to pin this fully on Commission now
 - Will provide you with advice on how to pitch it

3. Exit Pay

- Enterprise Act has capped exit pay at £95k
- POL has a lot of restructuring still to do – generous exit terms has helped with that
- Lots of people who have worked at POL a long time
- Chair written to ask for exemption to get through the next period of change
- We are drafting advice for you, and are querying / verifying some of POL's assertions and arguments. But it will most likely recommend a 3 year exemption
- May need your intervention with HMT

THINGS YOU NEED TO KNOW

- “Project Sparrow”
 - Alleged problems with IT system seeing postmasters suffer losses and in some cases imprisonment
 - No evidence of bugs in the system despite three years of investigation
 - High court proceedings have begun
 - Suggest we give you a fuller briefing on this as it regularly flares up
- Strikes
 - Dispute over job losses in the cash supply chain, Crowns, network transformation team
 - POL also seeking to close the defined benefit pension scheme
 - CWU are balloting, UNITE have written to SoS (advice to come)
 - Unions say Post office “in crisis” – want HMG to reset strategy, sack the board, provide more govt funding
 - Unions define “success” as CWU/UNITE jobs, not financial performance and modernisation of the network
 - You are meeting CWU general Secretary Dave Ward in September
 - You are meeting CEO Paula Vennells before then
- Royal Mail / Bank of Ireland
 - Key contracts, need to be renegotiated as they misalign incentives
 - POL will have to hold nerve, counterparties in a stronger position
 - Implications for long term security of POL – a good result will put POL in a much better place financially
- Remuneration
 - Paula has relatively high pay for public sector
 - But well below FTSE250 comparators (for base pay)

- Base pay and Short Term Incentive Plan (STIP) approved by BIS ministers and currently with CST
 - Coming back on Long Term Incentive Plan in the autumn once funding plan/strategy finalised
- Banking Framework
 - Can access bank accounts at POL. But not a uniform service
 - Good news, new agreement, response to bank branch closures
 - Announcement in December (could combine with funding, or do separately)

LONGER TERM

Policy

- Manifesto – 3000 rural branches secured
- Informally / less explicitly – maintain c11,500, reduce taxpayer burden, POL to act commercially and independently
- Are ministers content with continuing this approach?
- HMG has to date been relatively silent on ownership – see below

Ownership

- Postal Services Act 2011 – POL can only be publicly owned or mutualised (i.e. owned by those with an interest in its public service e.g. customers, employees, subpostmasters)
- We had very early discussions with previous SoS around some sort of Social Enterprise model
- Our view, which we did not have much opportunity to discuss with previous ministers, is that we need to sort out funding plans and financial viability first, before we can assess the most appropriate ownership option (those options will depend on POL's long term financial viability)
- But would welcome a discussion with you

Advice to come on return from holiday

- Network Consultation
- Exit pay
- Response to Unite letter