

RESTRICTED – POLICY AND COMMERCIAL

To Martin Donnelly
From Post Office Network Team
Date 23 September 2011

Meeting with Alice Perkins, Chair - Post Office Ltd 15:00-15:30 Tuesday 27 September 2011

Purpose

Meeting Alice Perkins, the newly appointed Chair of Post Office Ltd (POL), to discuss the Government's strategic goals, and to explore her initial impressions of the company.

Attendees

Alice Perkins (POL)
Optional – Will Gibson (ShEx)

Your objectives

- To emphasise to Alice the priority with which the Department's Ministers view the Post Office.
- To gain an initial impression from Alice, of how she views the challenges and opportunities of the new role.
- To understand the progress Alice is making in establishing the Post Office's Board.
- In the context of the Postal Services Act, to make clear the importance of there being an orderly separation of POL from Royal Mail, and the role of a strong, independent POL Board in achieving that.
- To stress that, given the investment Government is making into POL over the spending review period, it is important that ShEx has a presence on the POL Board once POL is operationally separate from Royal Mail. (This is consistent with the governance for many other ShEx businesses.)
- To stress the importance to Government of reducing POL's long-term reliance on subsidy, through the successful implementation of its commercial strategy.
- To gain an initial impression from Alice, of how she views the challenges and opportunities of the new role.

Alice Perkins' objectives

- This is the first of Alice's meetings with the BIS Senior team since she has become Chair (Alice will also be meeting both SoS and Edward Davey in October). She will be looking to gain a clear understanding of the Department's priorities.

Background

Governance of POL has historically been bound in with that of the Royal Mail group of companies, as POL is a subsidiary of Royal Mail Group Ltd. POL has had executive directors of its own, but has been subject to oversight by the full Royal Mail Holdings plc Board. With the passage of the Postal Services Act 2011, preparations are being made to prepare the Royal Mail letters business for an injection of private capital. This involves separating POL, which is not for sale, from the letters business, and ensuring new, separate and suitably robust governance arrangements for POL.

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Alice's appointment, which was approved by Ministers in July, was the first step in establishing those governance arrangements. She formally took office on 22 September. Alice met Edward Davey (with officials) prior to her appointment but she has not yet met the Secretary of State. They are due to meet on 3 October. Key elements of Alice's role involve building up an independent Board for the company, overseeing its separation from the Royal Mail group of companies and the possible future move to mutual status. At the same time, critical to her role is supporting POL executives in the delivery of the company's strategy to reduce its long-term reliance on Government subsidy. Alice will need to demonstrate clear and strong leadership to ensure that the interests of POL, often perceived to date as the junior partner to Royal Mail, are best reflected in the separation process. This involves negotiating key contracts with Royal Mail around shared services and the distribution by POL of Royal Mail products (historically c40% of POL revenues).

The negotiation of separation arrangements is expected to be completed in the next few months, so that the businesses are able to operationally separate when the pension deficit solution is implemented (expected March 2012). At that point, given that POL will remain 100% owned by Government and reflecting the priority that POL represents (as well as the size of the investment being made by Government over the spending review period (£1.34bn)), a ShEx official will join the POL Board. This decision was confirmed by Edward Davey this month. Alice is aware of our intention in this regard and has discussed it with ShEx officials although not yet with Edward Davey.

As Chair, Alice has stated her intention to conduct a review of POL's Board to ensure that there is an appropriate mix of skills and experience to meet the challenges that the business faces in implementing its commercial strategy: transforming its network, developing new services and winning contracts, eliminating Crown losses. Over the course of the spending review period, POL's strategy encompasses the introduction of new network models to 6,000 post offices (c4,000 "Main" post offices and c2,000 "Post Office Locals"). These will have longer opening hours, greater automation and therefore address queuing issues. They will also introduce a greater level of variability to POL's cost base. Over the same period, POL also proposes to eliminate the losses made by its 373 Crown post offices, which currently lose c£55m pa. This will involve both cost reduction (principally staff costs) and growing revenues. The principal target for revenue growth is Government services, where POL's ambition is to become the "Front Office for Government" as more and more local and national Government services move online and see their front office functions outsourced.

Preparing the company for possible mutualisation (assuming the successful implementation of the commercial strategy) will also be a key role. We have now published our consultation document on developing a mutual ownership model for POL (on 19 September) and are grateful to Alice and the wider POL team for their input into this. We will continue engaging with Alice and the team as the policy is developed over the coming months.

CC list Cable MPST; Davey MPST; SPAD MPST; Susannah Storey; ShEx POL team; Josh Coe.

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AGENDA FOR MEETING – ISSUES TO RAISE AND POINTS TO MAKE

	Points to draw from:
Separation and establishment of the Board	<ul style="list-style-type: none"> • Separation will allow POL to focus on the challenges and opportunities that it faces. • But as Moya Greene and Donald Brydon said to Parliament, POL and Royal Mail will remain reliant on one another. It is therefore vital that the right commercial contracts between the two companies are in place. POL therefore needs an independent and robust Board to represent its interests in the finalisation of those contracts. • Understand that progress is being made in the appointment of a Senior Independent Director and that a recommendation has been put to Ministers. Keen to hear more about your plans to develop the Board. • I understand that you are to conduct a review of the Board to assess its skills base, and whether there are any significant skills and knowledge gaps. • Once the businesses have separated, given Government's ongoing 100% ownership of POL and the scale of the spending review investment, it is important that ShEx join the Board.
Mutualisation	<ul style="list-style-type: none"> • We have now begun our consultation on developing a mutual ownership model for POL and want to thank you and the POL team for your input into the document. • We will continue actively engaging with you and the POL team as the policy develops.
Commercial Strategy	<ul style="list-style-type: none"> • The Board's support and challenge to the executive team in implementing POL's commercial strategy will be critical in making the business more sustainable and reducing its long-term reliance on subsidy. • Without a successful implementation of the commercial strategy, a key Ministerial priority – introducing a mutual ownership model – will be impracticable. • The network is entering a critical phase as new operating models are developed, and the next year is particularly important. • By 2015, over half the network will have moved to new operating models. POL has a good track record of successfully conducting large scale network changes, but we must not be complacent. • Government services form a key part of the Commercial Strategy that was instrumental in securing such a large and generous Spending Review settlement. • It is fundamentally important that POL is as commercial as possible to win Government contracts. The SMOTs experience shows that Government cannot simply award contracts to POL. • The importance of new Government services revenues to the delivery of the strategy means that it is critical that POL's team is appropriately resourced and staffed.

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Key commitments contained in the Policy Statement “Securing the Post Office Network in the Digital Age” (Nov. 2010)

- We recognise that the Post Office is more than a commercial entity and serves a distinct social purpose.
- We will ensure that post offices remain a valuable social and economic asset for our communities and businesses.
- There will be no programme of post office closures under this Government.
- The Post Office is not for sale.
- We will provide £1.34 billion for the Post Office to modernise the network and to safeguard its future, making it a stronger partner for Royal Mail.
- We want to see the Post Office become a genuine Front Office for Government at both the national and local level.
- We will support the expansion of accessible and affordable personal financial services available through the Post Office.
- We will support greater involvement of local authorities in planning and delivering local post office provision.
- We will create the opportunity for a mutually owned Post Office.
- The breakdown of payments to the Post Office will be as follows:
 - £180 million in the financial year 2011-12 (as we have already committed)
 - £410 million in the financial year 2012-13
 - £415 million in the financial year 2013-14
 - £330 million in the financial year 2014-15