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**MEMORANDUM FOR:** Group Executive

**FROM:** Mark Davies,  
Communications and Corporate Affairs Director

**SUBJECT:** Influencing the new Government

**DATE:** 16 April 2015

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**Recommendation**

1. The Group Executive is invited to approve the approach for using the post-election period to engage with a new Government with a view to ensuring a favourable policy environment for current strategy implementation and to start framing the way in which our relationship with Government might evolve over the next 5 years.

**Executive Summary**

2. Following the general election a new Government will be formed. This is a critical period in the life of a new parliament, where ministers are both at their most powerful and seeking to develop and shape new policy positions. This therefore presents the Post Office with a window of opportunity within which to set out our position and to influence ministers.

Our objective will be to use the opportunity of building links with the new government to ensure our minister is fully sighted on the opportunities and challenges in relation to our business. We should also see the post-election period as an opportunity to actively shape the agenda with Government. This will necessitate a clear exposition of some of the difficult issues ahead, as well as setting out the opportunities the new Minister's portfolio presents.

This paper sets out in further detail:

- The context for post-election engagement – particularly the position as to the potential constitution of a new Government and the time it will take to be formed
- Considerations for setting out our position with a new Government – covering the issues that need to be raised
- Opportunities to present to Government – the propositions that help underpin Post Office future strategy which are attractive to a future Government policy
- The suggested narrative to be used – building on our existing strategy - and approach to taken, and the risks that need to be assessed through this period.

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### **Financial Metrics**

3. Engagement and influencing a new Government will be undertaken by existing resource within the Business and no additional finances are required. The approach being taken is designed to assist the achievement of current financial strategy and plans, and to create the most positive environment for future plans.

### **Previous Approvals**

4. The approach presented in this paper is consistent with the work of the cross-business Government Relations Steering Group attended by representatives from People and Engagement, CEO office, Commercial and Strategy teams.

### **Proposal**

#### **5. *Background – the General Election***

- We are on the cusp of the most uncertain election for a generation with no one confidently predicting the governmental outcome.
- An uncertain, volatile and potentially prolonged policy-shaping environment may ensue.
- Current polling suggests that a two-party coalition will not be sufficient to achieve a majority. Therefore a formal coalition could comprise three parties.
- Any coalition agreement could be more detailed and lengthier than in 2010. Assuming that any coalition partners are aiming to deliver another five year government – and the Fixed Term Parliament Act will make another election before 2020 unlikely – parties (particularly the Lib Dems if they are at the table) may be conscious of the pitfalls of running out of policy half way through.
- Therefore it could be several weeks for coalition partners to reach an agreement, delaying the formation of a new Government and the appointment of ministers.
- Alternatively, the next administration could be a minority Government, with a supply and confidence agreement, rather than a formal coalition.
- Such a minority Government with less formal 'issue based' support from other parties could lead to a less structured and more flexible forward agenda. Again this could result in a relatively prolonged period of policy uncertainty.
- A single party succeeding in achieving an overall majority seems unlikely: where pollsters and other commentators see this as a possibility they point to a Conservative majority being the most likely outcome.

#### **6. *Background – Manifestos and Policy***

We expect the main parties to publish their manifestos the week commencing 13<sup>th</sup> April. The manifestos will represent an opening gambit for any coalition negotiations.

Our positioning to date with the policy teams from the main parties has sought to reinforce a general consensus of support for current Post Office strategy. We have attempted through our lobbying to strike a balance between engaging with policymakers to ensure any manifesto commitments align with our strategy, while at

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the same time not fuelling interest in a way that would result in anything unhelpful. Our specific asks to date are summarised at Appendix 1. While we cannot directly influence manifesto content, we can seek to shape it by raising issues and challenges, and have engaged with key figures in the three main parties

There are a number of relevant policy areas that may feature. These include:

- ownership/mutualisation [and potentially governance related to executive pay]
- the Post Office agreement with the Royal Mail (a Labour priority driven by CWU agenda)
- the move to digital government
- financial services and financial inclusion

Further detail of what we might expect with parties' stated policy positions is at Appendix 2.

**7. *Context - Government Spending Review and potential funding negotiations - process and timescale***

The priority for a new administration will be to continue to reduce the deficit (while protecting key departments such as Health).

- There are a number of possible permutations for the next spending review (SR), both in terms of its timing and the period it covers. By Autumn 2015 the new government will need to set spending plans at the departmental level for the year 2016/17, given that Whitehall departments currently only have their budgets set up to the end of 2015/16.
- However, SRs in the UK typically cover longer time periods so it remains to be seen whether the new Government is in a strong enough position (both politically and economically) to conduct a longer-term review.
- Given that we have agreed our funding with BIS (and the European Commission) up to end 2017/18, there are two broad scenarios in which we could be pulled into the next SR process:
  - a) the new government conducts an SR which extends beyond 2017/18, in which case we would need to be ready to engage with Shex on updated projections and options (and the underpinning evidence) to support their negotiations with BIS Finance and HMT; and/or
  - b) there is pressure to reopen our existing funding agreement in 2016/17 or 2017/18. While the likelihood of a concerted effort to reduce this funding is considered to be relatively low, pressure could come to bear on BIS from Treasury officials. We are working with the Shex team to ensure they have the arguments and evidence to explain the substantial legal, financial and operational issues it would create.
- In both scenarios it is critical that we set out a strong account of our commercial performance and future plans to provide reassurance that we are doing everything within our control to reduce the requirement for subsidy. Appendix 5 provides an outline draft of the narrative intended to meet these objectives.

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## 8. *Using the window after the election*

There will be a period immediately after a new Government is formed where ministers' ability to instigate a change of direction or drive the formation of new policy is at its peak. Even if there is a protracted period of inter-party discussions around Government and policy formation, this essential dynamic remains – once senior politicians commit to a path, the room for manoeuvre for change is limited.

We will brief Ministers in this early window of opportunity with a view to:

- protecting the current funding envelope while providing reassurance that we are managing this spending carefully and using it to deliver clear progress towards commercial sustainability (and thus lower subsidy in the future)
- preparing ministers to make the case to take tough decisions in future.
- playing to ministers' agenda by demonstrating the ways in which Post Office can help government deliver its objectives.

## 9. *Key Considerations within post-election influencing*

We should set out issues and potential difficulties early on, thereby reducing surprises, and any resulting political challenge further down the line. Providing ministers with an early and comprehensive picture of the commercial and stakeholder context in which we operate will be key. We should assume limited prior knowledge.

Key considerations within the influencing approach will be:

- *Market conditions and commercial performance* – highlighting the tough and fast changing market conditions in which we operate
- *Future relationship with government* – building confidence in our progress towards commercial sustainability; emphasising the importance of maintaining the current funding as a mechanism to enable future subsidy reduction; the potential attractions of developing the POL-Govt relationship onto a more structured, contractual like arrangement
- *Network Issues (Cliff and Extension)* – NT moves into a phase that could create more stakeholder 'noise' after the election. It will be crucial to explain context and the adverse implications for Government of any change of direction in response to such short term noise.
- *Mails/RMG relationship* – importance that we have flexibility in a fast moving market to meet our commercial needs

Other key issues on which we will focus (or could be drawn into) include mutualisation, Sparrow, the NFSP agenda (linked to the cliff and extension) and the union agenda (most relevant should Labour come to power).

Further detail on these considerations is at Appendix 3.

## 10. *Key opportunities in the post-election influencing process*

We will also use the post-election period to emphasise opportunities that promote Post Office strategy through helping Government realise policy goals. Key areas discussed by the Government Relations Steering Group include our role



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providing a national infrastructure, as the default provider of over the counter services, as enablers of the 'digital by default' strategy, financial services and partner banking and support for SMEs.

Further detail on these opportunities is at Appendix 4

#### **11. *POL narrative within influencing discussions***

A draft narrative, drawn up through the Public Affairs, Policy and Strategy teams (and work in progress requiring additional detail), is provided at Appendix 5. This is primarily focused on the key requirement to protect our existing funding agreement to end 2017/18.

The mechanics of influencing involve contacts with BIS officials, the new Minister, other key Government contacts (Cabinet Office, Treasury) and with key MPs on a cross party basis – and will use the range of techniques (briefings, visits, meetings). Further details on the approach are given at Appendix 6.

### **Risks**

12. There are a series of potential risks inherent in the post-election environment which will have to be assessed in handling influencing of Government within this period. Notably:
- The post-election period of Government formation is lengthy and uncertain carrying the risk of paralysis of Government policy formation. Whilst the 'business as usual' of current Post Office strategy implementation would continue in such an environment, opportunity to influence future direction may be constrained.
  - Other stakeholders may pursue an aggressive counter-narrative depending on circumstances (e.g. NFSP, Unions, Paypoint). Whilst this will not deflect the influencing approach outlined above, it will require more communication focus and increases the requirement for more extensive public and media positioning.
  - Network Transformation will be entering a potentially more controversial phase with the Cliff as more reluctant postmasters are drawn into the Programme. The handling of NT in these circumstances will need to be carefully co-ordinated with the Government influencing strategy to avoid negative impacts.

Whilst these are real risks, the handling of them within the overall influencing strategy is not considered to be outwith the company's current risk appetite profile.

### **Conclusion**

13. The post-election period is likely to produce an unprecedented political/stakeholder environment – but it is one which Post Office Ltd must use to promote its corporate position and to create an environment to facilitate current strategy implementation and future strategy formulation. The analysis and approach outlined in this paper, implemented flexibly in the context of ongoing monitoring of the political and governmental environment, represents a structured route to achieving the best outcomes for the company.

**Mark Davies – Communication and Corporate Affairs Director**

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**Appendices**

**Appendix 1 - Our 'asks' to date in pre-election party political influencing**

**Appendix 2 - Manifestos: Potential areas of policy interest**

**Appendix 3 - Detail on the key considerations within the post-election influencing approach**

**Appendix 4 - Opportunities in post-election influencing**

**Appendix 5 - Outline narrative for use with new Government**

**Appendix 6 - Mechanics of Influencing in the post-election environment**

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## **Appendix 1**

### **Our 'asks' to date in pre-election party political influencing**

1. Provide the freedom and flexibility for the Post Office to compete in a fast-changing marketplace, and to pursue its commercial strategy to 2020
2. Commit to the current Government's funding for the Post Office to 2018.
3. Leverage the branch network: use the Post Office as a Digital Front Office for Government
4. Support POL mission to become a challenger brand in financial services through its partnership with the Bank of Ireland, and to provide partner banking services
5. No binding commitment to a particular ownership model



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## **Appendix 2**

### **Manifestos: Potential areas of policy interest (2015 Manifestos due mid-April)**

#### **Conservatives**

The Post Office is unlikely to feature in the Conservative manifesto and we have not argued against this state of affairs.

On **mutualisation**, the Conservatives are likely to offer warm words in support of a range of ownership models “occupying the space between the public and private sectors” - an agenda close to Francis Maude’s heart. However, the Post Office is not on Conservatives’ radar in this regard.

A Conservative government is more likely to stick to the current government’s spending commitments. However all policy areas outside the protected departments of health, education and international development are vulnerable to further cuts.

#### **Lib Dems**

We understand that the current draft of the Lib Dem manifesto contains few (if any) references to the Post Office, apart from a list of achievements in Government. A general commitment to mutual ownership models may well remain a key pillar of Lib Dem policy. So it is not inconceivable that the final version of their manifesto reaffirms a commitment to take forward ‘examination of the mutualisation of the Post Office.’

If Liberal Democrats form part of the next Government, they are likely to fight to ensure that the current government’s spending commitments are adhered to.

#### **Labour**

Labour has intimated they need to give something to the CWU that stops short of a commitment to re-nationalise the Royal Mail. So far they have focused on the future of the USO in the face of competition and support RMG’s request to Ofcom to bring forward a market review. It is also possible that Labour will pledge to secure the future of the link between the Post Office and the Royal Mail. Although in private they admit they don’t know how they would enforce this. Mutualisation is not a priority.

On spending, Labour policy teams have been told they will have to justify every pound of every spending commitment. This includes the shadow BIS team who will have to make the case with their Treasury colleagues for keeping to the current Government’s spending commitment for the Post Office to 2018. A 40% cut to the BIS budget under a Labour Government has been mooted.

We have made the case with Ian Murray (Jo Swinson’s shadow) that current spending is helping put the Post Office on a path to commercial sustainability, paving the way to a reduction in subsidy.

Last year Chuka Umunna MP (Vince Cable’s shadow) raised with us the idea of a Post Bank. We reminded him of our relationship with the Bank of Ireland, and that this is the best way for the Post Office to become a challenger brand in FS, without the huge capitalization requirements setting up a Post Bank would entail.

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### **Appendix 3 – Detail on the key considerations within the post-election influencing approach**

These considerations are ranked in order of importance in an assessment by the Government Relations Steering Group. They cover those issues on which we will need to influence Government proactively to support our position, and those which we will wish to seek to shape Government policy into supportive positions [e.g. Sparrow].

#### **3.1.1 Market conditions and commercial performance**

We will need to highlight the tough and fast-changing market conditions in which we operate. We should assume no prior knowledge of either the increased competition in the mails, home shopping returns and bill payments markets, nor the impact that this has on our business.

We should also highlight the negative impact on revenue from the drive to move more government services online.

#### **3.1.2 Future relationship with government**

Beyond the end of 2017/18 there may be attractions to moving the relationship with Government onto a more commercially-focused basis, including potentially exploring the scope for a longer-term funding contract which would effectively take us out of the whims of the departmental spending review process. However, given the uncertainty around our long-term market and financial projections, there are dangers with this approach, particularly at the current point in time. We will be assessing these options with the GE in more detail as part of the work leading to the June Board, with a view to reaching an agreed hierarchy of preferences.

In the meantime our early engagement with ministers should focus on: a) building confidence in our progress towards commercial sustainability; b) highlighting the importance of maintaining the existing funding to end 2017/18, explaining that there are no credible options to reduce the subsidy more rapidly; and c) setting out in high level terms the potential attractions for both sides of moving to a more contractual relationship in the future. In parallel we will engage Shex officials on the emerging options during May on a 'without prejudice' basis, to test and socialise our thinking before any more formal engagement.

#### **3.1.3 Network Issues (Cliff and Extension)**

There is likely to be increased local "noise" as we enter the remaining stages of the Network Transformation programme. We will continue to mitigate this noise as far as possible. However this could result in pressure on ministers to intervene and we should not regard the election in isolation from current discussions with the NFSP.

We should stress the importance of sticking to our plans, and seek Government support for this. The implications of a change in direction (on future funding and in terms of Government detailed involvement) should be made clear.

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At the same time, we should seek to dissuade a new minister from a renewed focus on network extension from a political viewpoint— our priority has to be investing in the existing network and pursuing extension for commercial purposes

#### **3.1.4 Mails/RMG relationship**

In a fast-moving market, flexibility will be key to commercial success and, subject to the conclusions of the mails strategy review underway, we should move to dissuade any future (Labour) administration from attempting to bind us more closely to the Royal Mail, or for a longer period.

#### **3.1.5. Mutualisation**

While it won't be a high priority, it is likely that mutualisation of the Post Office will remain on the policy agenda.

We should continue to stress that commercial sustainability comes first, while providing examples of ways in which we are working more mutually (new IR framework, Post Office Advisory Council, Business User Forums, engagement activity). We want to avoid any knee-jerk political commitments, or extended dialogue over ownership structures on the grounds that they simply divert attention and resource from the task in hand – commercial and financial sustainability.

#### **3.1.6 Sparrow**

There is likely to be continued, though limited, interest in Sparrow. The recent Select Committee Inquiry concluded with a letter to the Secretary of State, and the response was as helpful as we could have hoped for, drawing a line under that particular angle of interest. Any continued interest will be driven by a small group of MPs with constituents in the Scheme. The leaking of Second Sight's Part Two report could act as a catalyst for continued media and political interest.

So while we have had some success in removing Sparrow from spotlight, there is no guarantee that a new minister won't seek to win some early political points by re-visiting the issue and he or she will undoubtedly come under pressure to do so. We should warn about the risks of this course of action.

#### **3.1.7 NFSP agenda**

The NFSP will be seeking to influence a new government as early as possible so we should be aware how their agendas will play to ours. Their influence is likely to be greater with Labour ministers.

The NFSP will argue for continued subsidy post 2018, for community branches at the very least. They will highlight the risk of closures if this is not forthcoming or if agents pay does not increase. It is likely to highlight competitive pressures faced by sub-postmasters and can be expected to voice continued opposition to Network Extension.

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They may highlight the partner banking work undertaken by the current Government and the BBA, using this to make the case for the banks pay more for partner banking services, and for sub-postmasters to retain a greater share.

The NFSP will make it clear that, as far as they are concerned, the last Government failed to meet its objective to make the Post Office network the “front office” for its services, pursuing its agenda of placing services online instead. In the case of contracts the Post Office did win, the NFSP are critical of the fact that many of these services were only available in a limited number of branches, and are low-volume, one-off or in one or two local authority areas. They will make clear the detrimental impact this has had on sub-postmaster income.

They will argue that sub-postmasters urgently need new revenue sources, without which “we leave POL unable to operate as an independent business; and the UK with a hefty bill for the smartest, emptiest post office network in Europe” (NFSP Annual Review 2014).

The NFSP position in a post-election environment will be strongly related to the outcome position from the Grant agreement discussions. The NFSP has its annual conference on 11 May and is likely to use this platform to commence its own attempt to influence a new administration. Our aim is that it has positions aligned to our strategy, but we will prepare contingency lines should we face a more negative position.

### **3.1.8 Union agenda**

The unions will also seek to influence a new government and will be campaigning for Labour (and preparing to put significant pressure on a Labour administration). On the broader strategic issues affecting the Post Office, the CWU and Unite share similar public policy priorities. Both unions are more interested in the future of the Royal Mail than the Post Office.

However, we can expect the CWU to push for: a continuing government subsidy to the Post Office as a ‘public service’, more government services contracts to be channelled through the Crown network; and a commitment to retaining the present Crown network (i.e. no further franchising).

Unite takes a similar position, although it is less strident on the public subsidy and, privately, more realistic on the long-term viability of the Crown network given increasing digitisation across government as well as the retail and postal sectors.

Neither Unite nor the CWU have any influence or links with the Conservatives or Liberal Democrats. The same is true, in Scotland, for the SNP. Unite is, however, the largest single donor to the Labour party and will expect to see its agenda implemented in large part if Labour forms the next administration. The CWU is not as close to the Labour Party and may become even less so if the current internal election for a CWU General Secretary results, as expected, in a new leader.

We will have delivered the first phase of our new IR approach by the time a new government is formed. We know that the Conservatives will enthusiastically back this, as well as further moves to re-frame our union relationship: Labour less so but the party will also be reluctant to be seen to be overtly supporting union agendas.



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## **Appendix 4 – Opportunities in post-election influencing**

We should also set out some of the opportunities provided by the Post Office, both as political wins that the minister can claim (saving Premium Bonds in Post Offices) as well as ways in which the Post Office can help the Government deliver its wider agenda (e.g. enabling digital government). The following are opportunities perceived by the Government Relations Steering Group as those which meet Post Office objectives and could have political and policy attraction to a new Government.

### **4.1 A national infrastructure**

The post-election environment provides the opportunity to remind politicians and parties of the value that a commercially successful and financially sound Post Office has as a key part of national infrastructure which can enable desirable policy outcomes (economic growth through SME's, efficient links between Government and citizens, financial and banking reform, welfare reform, local retailing).

### **4.2 Post Office is the default provider of over the counter services.**

Post Office has successfully provided in-branch services to government (Defra, DVLA, DWP and the Home Office) for several years via DVLA's Front Office Counter (FOCS) frameworks.

Cabinet Office and BIS has previously promoted the FOCS framework to government departments as the default contract for counter services, and we would like this to continue and be strengthened in a policy sense.

### **4.3 Post Office as a Digital 'Safety Net'**

The Post Office can enable the Government to go Digital by Default by:

- Providing 'step-out services' to verify evidence, take photographs and other biometrics allowing individuals to transact with Government digitally.
- Provide in-branch services for those who are unwilling or unable to transact digitally. These could be self-service or face-to-face. For those unwilling the service could be chargeable, for those unable it could be paid for by government. Either way, government would still receive digital applications, allowing it to realise the savings that accrue from moving to digital.

Post Office can enable government to move to universally digital services, by providing a safety net for those who would otherwise be excluded from accessing digital government services.

The FOCS framework could be used as a procurement vehicle for these services, and Post Office would like the FOCS framework to be the default option for these services for Departments.

### **4.4 Post Office can become the default Verify Identity Provider, particularly for 'Difficult to Verify (DTV)' customers.**

The Post Office is well placed to become the default provider for Verify.

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- The reach of and trust in the Post Office brand means that Post Office is uniquely placed to manage the public's electronic identity.
- Post Office is alone amongst Verify suppliers in being able to reach out to those individuals who may not have enough of an electronic 'footprint' ('DTV customers) to be able to get and maintain an electronic identity by assuring identity's in branch.

We should ask Government to:

- Promote Post Office as the default partner for handling thin-file customers, either through the Verify framework or FOCS.
- Work with us to ensure that we are closely associated with the use of identities across Government. .

#### **4.5 Providing Multi-Channel Services**

Government should recognise that Post Office is a digital organisation, able to provide fully digital services in addition to those provided in-branch. This allows us to offer complete multi-channel services, in addition to or instead of Government, in a way that is cost-effective.

#### **4.6 Partner Banking**

We would want to continue Government recognition of the Post Office as a fully-fledged 'challenger bank' which is a significant player in the reform of the UK banking system – as well as the parallel position of the Post Office network as a part of the universal 'UK banking infrastructure' enabling access to accounts with partner banks (at commercial contract rates paid by the banks so that they can meet their infrastructure requirements).

#### **4.7 Premium Bonds**

Our current contract with NS&I ends in September 2015 and NS&I are looking to get a view from HMT regarding the extension of the contract (as it was a year ago). The purdah period means the decision (by HMT) cannot be taken until a new Government is in place. Therefore NS&I are preparing their case for extension so that a decision can be made as soon as possible thereafter.

Post Office will need a decision from HMT/BIS in May/June since Post Office cannot continue to sell premium bonds without being remunerated (from August 2015).

We should therefore stress to BIS ministers the importance of an early, favourable decision.

#### **4.9 SME support**

All parties are committed to support SME growth, which in turn is recognised as a key motive force in the development of the economy over the next five years. The positioning of the Post Office as an essential infrastructure to help SME's develop is attractive across the political spectrum (all the smallest SME needs to grow is access to the internet and a nearby Post Office and it can trade with a vastly enhanced customer base). Promoting Post Offices as infrastructure that accelerates economic activity and opportunity is a critical part of a growth narrative – necessary to counter perceptions amongst politicians of the Post Office as a legacy outfit catering for a diminishing non-digital base.

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**Appendix 5 – outline narrative for use with new government****KEY MESSAGES:**

1. We are making steady progress towards commercial sustainability, managing the commercial challenges while safeguarding our trusted brand, social purpose and network of over 11,500 branches
2. The Government can have confidence that we are a credible commercial entity that is delivering against its plans, taking a strong line on costs and succeeding in a tough competitive environment.
3. As a result, the financial support required from Government will continue to fall, delivering strong value for money in policy terms
4. Beyond 2017/18 the Government has clear choices between moving towards a purely commercial service with no government support versus protecting our social role in return for a limited annual payment. We will deliver an approach which best serves our customers and recognises the pressure on the public purse – our key requirement is to have clarity and the commercial flexibility required to survive in tough competitive markets.
5. These choices are not cheap and cannot sensibly be accelerated without incurring disproportionate costs and substantial legal complexity.

**ADDITIONAL DETAIL:**

1. **We are making steady progress towards commercial sustainability, managing the commercial challenges while safeguarding our trusted brand, social purpose and network of over 11,500 branches**
  - Post Office has agreed a strategy with Government designed to tackle the underlying economic challenges facing the network while safeguarding the essential role we play in communities.
  - The primary objective is to achieve commercial sustainability and the most significant target is to break-even before network support ('EBITDAS').
  - To support the execution of this transformation the Government has provided £360m in investment funding over the three years to March 2018, in addition to £280m over the three years to support the non-commercial branches maintaining a network of over 11,500 locations.
  - Four key planks to the transformation programme, set out below.
  - Firstly, modernising our network of over 11,500 branches in order to:
    - move agents onto new contracts which: a) pay them on a variable basis to incentivise stronger sales performance and make the business more resilient to



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market downturns, saving at least [£45m] pa; and b) remove the right to exit compensation to ensure that future investment is focused on strengthening the network rather than on those leaving the business;

- deliver a better experience for customers through longer opening hours (over 100,000 additional hours per week already) and brighter, more modern store environments.
- Secondly, overhauling our IT infrastructure, both in-branch and in the back office. Existing system is over 20 years old, and is crippling our ability to compete because of high operating costs and inflexibility. More importantly, without it, the PO will simply stop functioning – out of support software, Fujitsu data centre etc. New infrastructure will save c£27m pa and enable us to respond more rapidly to new requirements, supporting our ability to compete in dynamic markets.
- Thirdly, reducing costs through a more streamlined operating model. Staff numbers in central teams have reduced by 25 per cent; reduced central costs by £60m in 2014/15 and will increase this to £100m annualised savings by the end of 2015/16. *[Add more detail on what we've done and show the evidence]*
- Fourthly, re-establishing profitable revenue growth in the face of structural declines in traditional areas such as mails (especially letters), government services and payments. In particular we're:
  - establishing the Post Office as a major challenger brand in financial services, delivering significant topline growth as well as building genuine asset value particularly in insurance; *[add more detail]*
  - ensuring we're positioned to benefit from the growth of parcels and e-commerce *[add further detail in light of mails strategy]*; and
  - supporting the government's shift to digital by default, including as one of the approved providers of identity assurance – providing citizens with a reassuring and trusted name to help them navigate the shift to online interactions with government.

*[Add further detail if required to recognise that some revenue streams have not materialised as expected – highlight structural declines vs new growth separately to show the headwinds we're facing.]*

- The transformation programme is already delivering remarkable results, despite challenging market conditions:
  - In the financial year just ended we reduced our pre-subsidy losses to [£64m], down from £115m in 2012/13. *[Hit our profit target in each of the three years since separation];*
  - Crown network is on track to reach breakeven in the year ahead, having suffered annual losses of around £40m just a couple of years ago;
  - and by 2017/18 we expect to achieve the historic milestone of generating a profit before subsidy for the business as a whole. (NB although this doesn't mean subsidy can therefore just be removed because we won't be sufficiently cash generative to cover ongoing needs such as investment).

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- Sustained improvements in profitability is enabling us to reduce the network subsidy payment rapidly, from £210m in 2012/13 to £70m in 2017/18 – equivalent to an annual real terms decrease of over 20%.
- Show that EBITDAS has been delivered on plan to date in spite of income challenges
- This has been achieved while maintaining over 11,500 branches and continuing to meet our network access criteria, avoiding the closures that were required in previous restructuring programs.

**2. The Government can have confidence that we are a credible commercial entity that is delivering against its plans, taking a strong line on costs and succeeding in a tough competitive environment.**

- Market challenges (particularly in mails and government services) mean that we are now on track to achieve breakeven around a year later than envisage in the Strategic Plan – but we are making steady progress and delivering against the factors within our control
- While we have already made significant progress in transforming the business, there is more to be done over the next 3 years to complete the job. We need the Government's ongoing support in this regard – both in terms of backing the difficult decisions we have to take (NT, workforce reform etc.) and maintaining the existing agreed funding.
- *[Add further detail to build on the proof points in the actual delivery to date, to explain why the Government should be confident that that our plans will be delivered:*
  - *Where are the next three years of cost savings coming from?*
  - *Where is the new income coming from?]*

**3. As a result, the financial support required from government will continue to fall, delivering strong value for money in policy terms**

- Including investment funding, total payment from government is reducing from £410m in 2012/13 to £140m in 2017/18.
- Provided we maintain this strong progress towards commercial sustainability, would expect to be able to maintain the existing size of network with an annual subsidy payment in the region of £50-70m pa, far lower than the historical run rate.
- *[NB will need defensive lines to respond to the potential suggestion that the RoI has declined relative to Strategic Plan expectations.]*
- Because the Post Office is primarily funded by commercial activities, the Government gets a lot in return for this annual payment – we're a key part of the national infrastructure:
  - a. a cornerstone for communities in rural and urban deprived areas, supporting social and economic inclusion in localities where services would otherwise be

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- absent. 99.7% of UK population live within 3 miles of a Post Office;
- b. this role encompasses both the direct services we provide (access to cash/banking, mails and government services) and also the intangible but crucial role we play in communities – social value estimated at £2.3-£10.2bn pa according to 2009 NERA study; 85% of postmasters say they look out for vulnerable customers on a regular basis;
- c. supporting competition in the banking sector as one of the faster growing challenger banks in our own right, with £3m customers and over £16bn in savings – providing a trusted alternative to the high street banks;
- d. playing a key role in supporting small businesses – around a third of SMEs visit us each week to conduct banking, access the benefits of e-commerce or interact with government. Also a network of local businesses in our own right, with over 97% of the network run on a franchise basis;
- e. we're the third largest distributor of cash in the UK – with c430 vehicles shifting £33bn across the country each year, including in the remote areas not serviced by our competitors. One of four members of the Bank of England's Note Circulation Scheme. We're also growing our cash services to other retailers, providing much needed competition in a market that would otherwise be dominated by just two nationwide players;
- f. a key partner in the delivery of government services - including for DWP (POCA), Home Office (passports & biometric residence permits) and the DVLA (driving licences). And we're ready to support the shift to digital by default both as one of the approved providers of identity assurance and also as the only credible nationwide institution capable of providing assisted digital services for those who need it.
- Besides these policy outcomes, this spending is arguably good value for money in political terms, avoiding the need for another noisy and painful programme of branch closures (last programme was met with substantial public opposition, including a petition to No.10 signed by 4 million people).

**4. Beyond 2017/18 the Government has clear choices between moving towards a purely commercial service with no government support versus protecting our social role in return for a limited annual payment. We will deliver an approach which best serves customers and recognises the pressure on the public purse – our key requirement is to have clarity and the commercial flexibility required to survive in tough competitive markets.**

- If we were running a purely commercial network, it would have around xxxx full branches and xxx parcel points.
- Outlying communities would need to be serviced through lower cost operating models, such as outreach vans.
- The run rate savings would be in the regions of £xm, which would enable us to maintain a profitable business free of government support
- *[Set out further detail on social and political impacts – numbers of branches*

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*closed, how many constituencies, service impacts etc]*

- In addition to the social and political impacts, the restructuring costs to move to this shape of network would be in the region of £xm. *[add further detail on comparative Rol vs 'Plan A']*
- There would also be a point at which the Government would need to consider the ownership choices if the business were to move to a fully commercial basis.

**5. These choices are not cheap and cannot sensibly be accelerated without incurring disproportionate costs and substantial legal complexity.**

- There are no credible quick wins to unpick the existing funding to 2017/18 that wouldn't jeopardise our ability to achieve commercial sustainability and therefore represent worse value for money for taxpayers in the long term.
- Pursuing an accelerated restructuring to get to a fully commercial network would cost an additional £xm in transitional costs, worsening the Rol, and would raise a number of significant legal and stakeholder issues *[add details]*. Even then we couldn't feasibly execute such a plan in less than x years.
- Also need to take into account the fact that existing contractual funding agreement has been approved by the European Commission and is taken into account by our auditors and independent Board of Directors in assessing our going concern status. If there were perceived to be a material threat that this agreement would be reopened then it would raise serious issues for our directors and commercial partners.
- If the government could do more to commercially underpin POL in the interim period through profitable new revenue streams then our subsidy requirement might reduce.

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## **Appendix 6 – Mechanics of Influencing in the post-election environment**

### *How?*

- Briefing meeting with the new minister as soon as possible after this is announced.
- The new minister is also due to attend the Board Away Day on 17<sup>th</sup> June
- Briefing meetings with other key ministers (HMT, Cabinet Office).
- Fix visits to Kennington Park flagship (digital) and constituency branches for ministers.
- Parallel engagement strategy with MPs in new Parliament. To include: early briefing for all MPs, offer introductory meetings with all new MPs, Westminster drop-in session for all MPs in June, briefing meetings with key MPs (shadow ministers, BIS select committee, All Party Group)
- Build relationships with other channels across Government (Special Advisers, key officials, Parliamentary Private Secretaries)
- The Public Affairs team and other colleagues already have good links with key contacts likely to feature in the new parliament and government. We will seek to exploit these.

### *Who?*

Assuming current departmental responsibilities:

- Minister for Employment Relations and Consumer Affairs (BIS) and advisers/allies
- Secretary of State (BIS) and key officials
- Chief Secretary to the Treasury and key advisers/officials
- Minister for the Cabinet Office and key advisers/officials
- Permanent Secretary, BIS and key advisers/officials
- Key MPs (opinion formers, select committee members, opposition spokespeople)
- Special Advisers across Govt including key departments (DWP, Home Office) and including No 10
- Key political commentators (media, thinktanks etc.)

### *When?*

- Immediate post-election window in which to influence, before Ministers are asked to make departmental funding decisions in the summer.
- General Election: Thursday 7<sup>th</sup> May. The next parliament will meet for the first time on Monday 18<sup>th</sup> May to elect the Speaker and swear-in members. The state opening of Parliament, which will feature the first Queen's Speech for the new Government, has been confirmed as due to take place on Wednesday 27<sup>th</sup> May.