

Briefing for Robert Swannell meeting with Tim Parker, Chairman, Post Office Limited

You are meeting Tim Parker on Tuesday 19 July for a regular catch-up. Tim has been Chair of POL since October last year. The main points we think Tim is likely to raise are below. You should also note that Tim has a catch up with the Minister (Baroness Neville-Rolfe) after your meeting.

Strategy and funding

POL's funding from Government expires in March 2018, and negotiations with POL for future funding will take place over the autumn. Expectations have been that following the significant Government investment of recent years, POL would require c£50-60m p.a. to fund the c3000 social branches in the network. However, POL are considering a much higher request (c£600-700m over three years) to complete their transformation, and become truly sustainable (i.e. no longer require public subsidy).

This will be a very difficult sell to Government in the current climate. Particularly difficult issues include:

- c£180m to buy out Bank of Ireland's share of the forex JV "FRES". Whilst this has some commercial merit and would yield a steady additional profit stream of £35m p.a., Government would find it difficult to justify such investment of taxpayers money
- c£40-60m to convert c1000 "main" branches to the (smaller) "local" model, despite having only recently funded their conversion to the "main" model.

Tim will take a "we are where we are" approach to this, and will want to do the right thing for the business. He may well also be very persuasive with ministers and as such, whilst hard, it is not impossible that POL might secure most of the funding they desire. However, we should set expectations that POL might not get all that they want and may have to prioritise its investment choices. They will also need to present a thorough, credible, business case for their request.

Pensions

POL proposes to close its defined benefit pension scheme as this will become unviable in due course. Mark Russell wrote to Paula Vennells (POL CEO) last year to confirm the government would not be able to make good any shortfall in the pension. POL has consulted with staff on the proposed closure and is now reviewing what action to take. By the time you meet, they will have put a proposal to the Trustee (planned for 12-13 July).

The Treasury have advised that any decision to close the defined benefit pension will need to be cleared by the Chief Secretary of the Treasury as it is a contentious decision under Managing Public Money (MPM) guidelines. This notwithstanding, we expect that the business will request that the Trustee agree to close the pension in March next year. When this is closed POL may seek to close out all risk by transferring the pension either to Government or a private insurer, which will also probably need Government sign-off.

Although more sanguine than some of his colleagues, Tim may be critical of government actions on the pension – Cabinet Office and HMT have prevaricated on assurances they gave earlier this year on linking pension benefits to RPI (if POL maintained their RPI link) and POL are also frustrated that the

Government is of the view that closing the pension is covered in any way by MPM. POL believes that their legal view is clear – the pension assets are the legal responsibility of the Trustee and not their money, not the Government's money and not even the member's money and the decision on what to do with the pension is one for the independent Trustee not Government.

We share the frustrations but believe the path of least resistance is not arguing with Government but making the case for closure (and post closure options if needed). The UKGI team have worked hard to keep the pressure on government colleagues and quickly turned round a request for a business case supporting closure to keep to POL timescales. This has been approved in principle by HMT colleagues and the letter seeking explicit consent has gone from our Secretary of State to the CST. We expect them to get clearance from the CST shortly and continue to press HMT colleagues on this.

Public Sector Exit Pay

Government is putting in place a cap on exit payments to individuals in the public sector, which will limit payouts to a maximum of £95,000. POL are likely to be in scope of this. They are concerned about the impact this will have on their business, particularly their ability to reform the business through redundancies – it could be the final straw in a difficult industrial relations environment (see below).

It is possible for bodies to be exempted from these rules, either across the board or for specific cases. POL are keen to make the case that they should be exempted. While this will prove challenging (HMT are generally standing firm on the rules), we consider there is potentially a case to be made for some kind of time-limited exemption, which would allow POL to reform both its business (reducing headcount significantly) and make other changes such as to staff terms and conditions (including the pension changes set out above).

POL are very keen to push this through – Paula Vennells had a call with Mark Russell last week (28 June) to seek our support. We are supporting POL on this and will present the best case we can, but for that we will need POL to make a strong case, both in terms of the business impact if they don't receive an exemption, and the quid pro quo to show they are making changes and living within the spirit of the rules as much as possible.

Industrial relations

The combination of changes to pensions, the supply chain and the poorly performing Crowns, with potential job losses and/or compulsory redundancies, means that industrial action is highly likely, and at the time of writing (5 July) the Communication Workers Union (CWU) have announced they will ballot staff for action. Post Office have contingency plans in place, even for a sustained and coordinated strike.

The CWU have a meeting with the Secretary of State and Baroness Neville-Rolfe arranged for 11 July. We will update you on the outcome of that meeting, and the latest developments on IR, when we meet you next week. We expect Ministers to hold the line that these changes are necessary for POL to become a sustainable business.

Ownership

The Secretary of State has asked UKGI to look at ownership options for POL and whether it could be moved to some charitable/mutual structure. While we have not shared this with POL yet, we have informed Tim of Ministers' thinking. Work is still very much at an early stage.

Horizon IT system

Tim may mention the legal action being brought against POL in respect of its IT system Horizon and the claims that it wrongfully prosecuted/sacked a small number of agents. Tim had undertaken to review the matter for the Minister, but in the face of High Court proceedings now being launched they may need to reconsider. Tim will be discussing this with the Minister after your meeting.