

Briefing | Chairman meeting with BEIS Permanent Secretary | 5th January 2023

Background & Context

In your first meeting with Sarah Munby, the Permanent Secretary (Perm Sec) at the Department for Business, Energy and Industrial Strategy (BEIS), you will need to be clear from the outset that we are facing several existential threats: our business and the network are being put under severe pressure. It would be a successful meeting if we can achieve the following overarching objectives:

- That she recognises the breadth of the challenges facing POL and the scale of the financial and policy impact they might have, as well as how these are a shared problem for POL and BEIS
- That she understands a solution cannot wait. POL needs attention, resources and support in the near-term to respond to commercial challenges, deliver NBIT and participate fully in the Inquiry
- That she agrees she will take steps within BEIS to make sure Ministers and HMT are sighted on challenges, the trade-offs they involve, and the consequences of not acting. Helping to open doors to the Secretary of State of BEIS and Ministers within HMT would be particularly valuable

Although we are keen to work together to make further progress on the Perm Sec's stated Strategic Priorities for 2022/23 outlined in her welcome letter to you in December¹, in this meeting you should focus on two key messages:

1. The first is to bring the Perm Sec's attention to the **criticality of our current financial position** referenced in your 16 December correspondence — in short, POL cannot solve the challenges it faces alone and it will need support from BEIS to deliver what is expected of it (i.e. as a minimum policy outcomes, NBIT and the Inquiry). We have approached BEIS for funding now because of steers given to us by BEIS and UKGI officials, even though we have not yet finalised our revised 3YP forecasts. While we recognise wider pressures BEIS is having to manage we must work collaboratively on a way forward that balances the tensions BEIS faces – i.e. tightness of funding and policy delivery risk.
2. The second is to note that any immediate funding resolution only represents a short-term reprieve — there remain wider concerns and costs longer-term relating to the Department's now internal exercise reconsidering Post Office policy for the next decade. You should demonstrate that **POL is still committed to working with BEIS to (a) define a clear policy position and (b) explore funding mechanisms** for the long term. This work is also of critical importance.

You should then follow on from Nick's meeting with the Minister in December to request updates on the following two issues which, if remediated, would provide some short-term financial relief to Postmasters and the business:

3. Expressing disappointment that an announcement on the Government's review into energy bill relief for businesses was postponed to the New Year, you should **secure further commitments on energy bill support for Postmasters** beyond the end of March.

4. [REDACTED]

Wider Facts & Figures

1. **Last year, we estimated half of post offices are either loss-making or make a profit of less than £5k per year** – with inflation and increases in the National Living Wage (NLW) since then, we expect this to be considerably worse now.
2. In FY21/22, we estimate the cost of delivering BEIS policy for POL totalled £78-83m (against a network subsidy of £50m). This means that **BEIS today only funds c. 62% of the cost of its own policy**.
3. A survey in January 2022 indicated [REDACTED] **independent Postmasters say they expect to leave the network in the next 5 years**.

¹ Should the Permanent Secretary ask about cultural change at POL for postmasters, please find more information on this the Annex below.

4. Once year-on-year inflation is taken into account, **real terms average Postmaster remuneration has declined by c. 25.2% since 2013/14.**
5. We estimate that, over the anticipated lifetime of Historical Matters and the Inquiry from end to end (2018 through to 2025), the **POL will have spent over £375m on these issues (this equates to c. £30,000 per branch).** This starves the business of investment, and is a BEIS policy decision.

Item I | Funding Gap and future BEIS policy

Objective: You should **underscore the gravity of POL's current financial situation**, noting that even after identifying a potential £170m in self-help, we will still require BEIS support. The extent of this support is being driven mainly by structural change / soft trading in [REDACTED] as well as NBIT and the Inquiry. A follow up meeting for the Perm Sec with Nick is recommended.

You should demonstrate that POL is still committed to working with BEIS on a longer-term picture to (a) **define a clear policy position** and (b) explore **funding mechanisms**. This necessary work – which used to fall within the wrapper of a more formal BEIS policy review – cannot be forgotten.

Funding Request and Funding Gap

1. Before Christmas Nick sent a letter to the Perm Sec setting out a *provisional* view of a funding request. The letter was clear that the [REDACTED] ask was an opening and indicative position, ahead of our forecasts and a final view being completed in February / March, but that since we knew we would need support we felt there was value making a formal submission earlier. We were steered to submit the request by BEIS and UKGI officials, and we now want to use the next couple of months to get ahead of the final ask as much as possible (e.g. explain the basis for the ask, do what we need to do to get Ministers comfortable, explore different avenues for funding, etc.). A sensible next step would be for Nick to meet with the Perm Sec to explain the detail in this letter.
2. As part of the last Spending Review, **Post Office received a far smaller funding settlement than it bid for**. We requested a total of [REDACTED], but received [REDACTED] after several months of negotiation (and our commercial position weakening in the interim). We highlighted risks of that at the time.
3. That settlement was also based on a view of the business that was pulled together over a year ago. While it was already suboptimal at the time, the UK's economic outlook has deteriorated since then and over the summer **we identified a gap in our Three Year forecast totalling [REDACTED]**.
4. Through **self-help measures, we believe we have now identified around [REDACTED] of cash generating or cost reduction opportunities**. Although we are ready to deliver this, we recognise doing so [REDACTED]
[REDACTED]
5. Even though, on the whole, our business traded well in H1 FY22/23, [REDACTED]
[REDACTED]
[REDACTED]
6. [REDACTED]
[REDACTED]
[REDACTED]
 - a. We have reforecast the cost of our **Horizon replacement programme** and, due to additional scope needed to help de-risk delivery, hardware and people costs, etc. this will now cost more to deliver. [REDACTED]
 - b. The cost forecast **for our participation in the Horizon Inquiry has increased** given extended timelines, higher levels of complexity and greater demands being placed on POL for disclosure. [REDACTED]
 - c. Our **change forecast for the next three years has also increased by [REDACTED] over the three year planning period**, due to projects we had taken a risk on as part of our Spending Review discussions but where risks have now crystallised, where it is clear that deferral is materially more costly for POL and BEIS, or both.
7. In short, we do [REDACTED]
[REDACTED] POL ARC have also said that a number of risks are currently outside acceptable tolerance levels – in addition to those already outlined, specifically [REDACTED] – and so it is almost certain that deeper cuts would make this position worse.
8. In light of these challenges, and because self-help proposals alone are proving insufficient, we need further help from Government. We expect [REDACTED]
[REDACTED] This is intentionally not a precise number to allow for replanning activities early this year and we can easily see circumstances in which it is much higher.

9. A *minimum* funding request of more than [REDACTED] is certainly significant but much has changed with our business and in our markets since finalising the Spending Review outcome in March last year. This request is also likely to evolve over the coming months – as mentioned in Nick’s letter to the Perm Sec – as POL completes its reforecast. This is a very challenging time and you should note that **we, and BEIS officials, recognise there are no easy decisions only trade-offs.**
- a. To that end, can the Perm Sec **provide assurances that her Department will work with us to ensure alignment on the problem that needs solving, and that we identify the right way forward** recognising the challenges both POL and BEIS face. This will require funding and – we believe – also for BEIS to accept some difficult risks / outcomes. Given the urgency of the situation can she outline a timeline she wants us to work towards?

Long-term BEIS Policy

10. The ‘perfect storm’ of challenges necessitating our short-term funding request emphasises the importance of BEIS’ longer-term policy purpose for Post Office. You should demonstrate that POL is still committed to working with **BEIS to (a) define a clear policy position and (b) explore funding mechanisms for the long term.** We need to see further engagement on this but we value the Perm Sec’s support in ensuring the Department’s reappraisal of Post Office policy remains a collaborative, focused and ambitious programme of work.
11. Our funding request outlined above – once finalised – will enable POL to deal with the pressing challenges which it faces now but **you should note that, if BEIS’ objective remains running a sustainable business with minimal Government support, then this would mean POL necessarily having to think about taking further difficult commercial decisions to take out cost from the business.** This can only be done with bold policy direction, and investment.
- a. Can the Perm Sec therefore provide an update on the Department’s developing thoughts on the workstream’s scope, timelines and outputs? **What are her ambitions for the review this year?**

Context

- **BEIS took the decision to move away from an external policy review with a public consultation** and external stakeholder engagement, towards more of a POL-led exercise looking at tackling more immediate funding challenges around the 3YP.
- **While we would have preferred an external “review” with public consultation, we also recognise there are benefits of an internal exercise.** [REDACTED]
[REDACTED]
- Thanks to the policy review, we have built up good momentum over the last sixth months, **the BEIS team are well informed**, and our policy teams have a strong working relationship.

Facts & Figures

- [REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED]
[REDACTED]
- Our current **Comprehensive Spending Review settlement** consists of £150m in network subsidy, split over three years, and £185m in investment spend.

Item II | Cost of living / EBRS

Objective: To reiterate the challenges the Network is facing as the cost of living crisis exacerbates, demonstrating the support we're seeing for our campaign to extend energy bill support for Postmasters beyond the end of March.

Points to Make

1. The support Postmasters are receiving through the **Energy Bill Relief Scheme (EBRS)** until the end of March is welcome. However, we would like to explore with the Perm Sec **how we can extend this for Postmasters beyond that timeframe.** [REDACTED]
2. It is only fitting to support Postmasters as branches play **an essential role to play in supporting communities** during these challenging times. Consumers continue to rely on us for their cash needs – with £3.26bn moved through our branches in September – and we also are scheduled to issue 7.8m vouchers to distribute the £400 Energy Bill Support Scheme (EBSS) payments to 1.3m pre-pay energy customers from October to March. No doubt, **there is more we can do to – and we are committed to working with the Department to see how else we might support communities,** as we did in Covid.
3. We estimate the **end of the EBRS next March could result in a £6,000 to £8,000** increase in annual energy costs for a typical post office. To put this in context, across the network this equates to a total impact of around £70m pa – [REDACTED]
4. This is confirmed by data received so far from our **EBRS postmaster survey.** The survey shows the average annual bill for postmasters to be £9,576 in September, and £16,452 in October before EBRS was taken into account. **So without EBRS that would mean postmasters would currently be paying £6,876 (72%) more annually than their September bill.** With the ERBS taken into account, the average bill is £11,580, representing a £2,004 or 21% increase on September. Overall this means that EBRS reduces the increases postmasters have to pay on energy bills by £4,872 annually.
5. [REDACTED] If energy costs increase by around 40% next April at the same time as an over 9% increase in wage costs (associated with the next NLW increase), [REDACTED]
6. We were disappointed that Government **delayed its planned announcement to let Postmasters know whether they will continue to receive energy bill support to the New Year.** Postmasters across the country have been waiting for this decision expectantly and, having faced a challenging Christmas, are anxious to hear more [REDACTED] As the **Minister hinted at further support** at the end of last year when speaking to the Post Office board, can the **Perm Sec provide any further indication of what support,** if any, Postmasters will receive?

Context

- While the cost-of-living crisis is being felt across the UK, Post Office is feeling it acutely given challenges across the network before it began. Indeed, **the effects of the cost-of-living crisis are particularly severe for our Postmasters,** given they must not only weather rising costs – not least increases in the NLW – but also dampened consumer confidence.
- This comes in addition to **challenges being felt across the network well before the arrival of the cost of living crisis.** As we have briefed BEIS officials in recent months, due to a combination of rising costs and falling remuneration, [REDACTED]
- To help alleviate pressure on the network in August, we launched a package of measures to support Postmasters, **averaging at a 5% increase in remuneration,** which has been welcomed by parts of the network. At the end of 2022 remuneration is expected to be flat overall (around 0.6% up on last year), but without our intervention in August, remuneration would have been down in nominal terms.

Facts and Figures

- Discounts via the EBRS will be applied to energy usage initially between 1 October 2022 and 31 March 2023.
- It is the wholesale price which will be fixed at a limit of 21.1p/kWh for electricity and 7.5p/kWh for gas. According to BEIS estimates, small businesses can expect a reduction of c. 40% in their increased energy bill costs.
- The objectives of HMT's review are **(i)** Significantly reducing the overall burden on the taxpayer/public finances, taking into account the Government's commitment to fiscal responsibility and the need to ensure value for money **(ii)** Ensuring support is targeted at those most in need and unable to adjust or absorb to recent energy price rises, without creating a category of businesses that rely on indefinite state support **(iii)** Ensuring any support provided is consistent with business being incentivised to increase the efficiency of their energy consumption.
- [REDACTED]
- [REDACTED]
- [REDACTED]
- Our campaign urging Government to extend energy bill support for Postmasters has had a lot of pick up among the media and parliamentarians in recent weeks. **Several MPs** have tabled **written questions** on extending EBRS (the answers to which do not provide any new insight) and our online tool on the One website (which generates letters for Postmasters and customers to send letters to their local MPs) has seen more than **1,800 people writing to almost 500 MPs (as of 23/12/22)**.
- We've also had consistent press and radio coverage highlighting examples of branches which could face closure if further support is not forthcoming. Following his visit to **Postmaster Azim Shaikh's Blackpool branch**, **Scott Benton MP** (Conservative, Blackpool South) has written in [the Express](#) **urging the Chancellor to support post offices**. Our **media coverage** so far translates into a cumulative reach of more than **1 billion people** (a breakdown of which can be found below).
- In terms of media coverage, so far we have seen:
 - **882** pieces of coverage overall.
 - This includes **25** pieces of national print coverage (including article from Scott Benton MP).
 - **2** pieces of regional TV coverage.
 - **504** pieces of radio coverage across **276** stations.
 - In all translating to a total reach /audience of **over 1 billion**.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

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Context

- On **12th December a roundtable** was held between BEIS, HMT, POL, the Banks and the FCA with a further meeting with the FCA arranged for February. [REDACTED]
[REDACTED]
- Last year, the FCA took greater interest in the controls the banks have on cash being deposited through 'third parties', in particular via the Post Office network, to ensure it was appropriately mitigating money laundering without impacting legitimate customer journeys. This has resulted in the FCA requiring the banks to implement tighter controls on deposits via the PO network, and to enhance their due diligence of higher volume customers. The following changes are being requested by the banks:
 - Increased use of **CHIP and PIN** for personal deposits;
 - The **reduced use of manual deposits**;
 - Introducing **transaction limits** at the Post Office counter;
 - Introducing **cumulative limits** (daily, monthly, quarterly, annual) on deposits, set at the customer account level.
- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED]

Biography | Sarah Munby, Permanent Secretary, BEIS



Sarah Munby became Permanent Secretary for the Department for Business, Energy and Industrial Strategy (BEIS) on 20 July 2020.

Munby joined BEIS in July 2019 as Director General, Business Sectors. Before that, Sarah worked at McKinsey, where she led their Strategy and Corporate Finance practice in the UK and Ireland.

She has worked with some of the UK's largest companies to change their strategic direction, and led much of McKinsey's work on productivity across the UK economy. She began her career in the Civil Service as an Assistant Economist in the Department for Environment, Food and Rural Affairs (DEFRA).

Annex | Reforming POL for Postmasters [\[One Website\]](#)

1. We have introduced significant changes to improve processes, policies and support for Postmasters and their branch teams, and to better involve Postmasters. **Two Non-Executive Director** Postmasters, elected by other Postmasters, now sit on the Post Office Board, to influence strategy and ensure the business's direction is rooted in the reality of Postmaster business experience. A current Postmaster was also appointed to a **new Director role** in Autumn 2021, to lead on Postmaster engagement.
2. In direct response to the Judgments, significant **operational improvements** have been made, based on Postmaster and branch feedback, in every part of the business, from initial contact and training through to daily transactions and accounting. For example, a **new process for resolving stock discrepancies** was introduced in 2021 and we published detailed guidance for Postmasters and their teams about managing stamps and stock in their branch. We also introduced a new option on Horizon in 2021 for **Postmasters to dispute a discrepancy** if they identify one during their regular balancing process, together with comprehensive guidance on discrepancy investigation and resolution.
3. We have published several other new guides too, including a **Postmaster Support Guide** that sets out our commitments to Postmasters, the wide range of support available to them and a guide to Post Office policies.
4. We restructured our **Branch Support Centre**, with dedicated case handlers for more complex queries so Postmasters and branch teams have a named contact to help them resolve their issue quickly.
5. We launched **Branch Hub**, a portal containing a digital IT service desk, the facility to order cash and stock, and many useful troubleshooting guides. This is to help Postmasters get the information or service they need whenever they need it, without having to call our support centres.
6. We have improved **communications with Postmasters**, sending fewer and more targeted communications about product or process changes and making sure questions are responded to quickly.
7. We significantly **increased field-based support for branches** in 2019 and every Post Office branch now has an area manager who will visit them at least twice a year and is accessible via phone, email or WhatsApp, providing tailored support for an individual branch's needs.
8. In 2020, we held **nine regional Postmaster events** and one national event led by CEO Nick Read. In 2021, we held **two national conferences led by Nick Read**, and more than 100 Local Engagement Events were held with Postmasters across the country, hosted by senior managers.
9. We have launched **regional Facebook groups** that have become a valuable way for Postmasters to share issues and ideas with each other and with Post Office. We also invited all Postmasters to join our **Branch User Forum**, where Post Office branches get a chance to input into changes that will affect them.

10. The way we **onboard new Postmasters** has changed to give those new to running a Post Office a dedicated point of contact, giving optimum support throughout the onboarding application, and more comprehensive training.
11. We now have **16 classroom training sites** which are available for top-up training all year round with dedicated trainers, plus 40 specialist trainers around the country who deliver six days of on-site training at the new Post Office. We have launched additional operational training including how to investigate a discrepancy, 'how to' videos and work aid sheets, and extended the training available to Postmasters' teams.
12. **A business support manager is at the Postmaster's side for the first six months of trading** to help them realise their Business Plan ambitions by supporting them, connecting them with other Postmasters including a new shadowing programme that is being piloted, and guiding them through the various operational processes that go with running a Post Office, such as cash and stock control.
13. In the course of managing contracts with Postmasters, we recognise that from time to time we may make decisions that a Postmaster does not agree with. In some circumstances, we will still need to suspend Postmasters, and we will work hard in partnership with the Postmaster to avoid this. **The number of suspensions more than halved after our new operating approach came into effect**, and remains very low.
14. If we do need to suspend a Postmaster's contract pending investigation, **we ensure their business can keep running** by a combination of continued remuneration and finding a temporary operator while any issue is quickly resolved. We believe it is important that every Postmaster has a means to challenge such decisions. We therefore introduced a Decision Review Panel in 2021 that will review decisions in connection with the suspension or termination of a Postmaster's contract, where requested by a Postmaster.
15. **We know there is still more to do.** We will not let up in strengthening further our relationship with Postmasters and make sure they and their customers are at the heart of our current and future direction.