

In Strictest Confidence

Brief for meeting with George Thomson/Mervyn Jones on 5/2/15.

Arrangements

- Meeting with Paula at 11.00 for 1 hour in Paula's room

Purpose of meeting

- To discuss current/emerging strategic relationship with NFSP senior members

Key points/messages/outputs for Post Office at the meeting

- We should acknowledge **George's participation** in the Select Committee hearing and the **strong and supportive** position he took relating to the robustness of Horizon.
- We will explore **George's thoughts on where we go next** with the mediation scheme and how NFSP can be involved – whilst noting his position that he thinks the scheme should simply run its course with the individual cases and then we should move on, we want to gain his input to the options that need to be developed.

(Intent is not to discuss the MOU/Grant agreement but in the event this is raised, update as follows:

- We should confirm our **aspiration of wanting a deal** and that we would not be entering into one with an intention or expectation that it will be terminated at some point.
- We recognise his desire to **protect the organisation and also maintain its independence** – clearly a difficult balance when main source of funds will be direct from us.
- We believe, with careful consideration and crafting, a suitably framed agreement that **clarifies termination events** and has a **break clause** linked to a **review and termination payment** will be good deal for NFSP and one that will ensure they have an independent future.
- Neil and Nick, with appropriate authority from the Board, are **committed to work with NFSP** for as long as possible to try to find solutions to these issues.
- We also wish to ensure NFSP are fully informed on our thinking related to the **NT cliff and Network Extension** and would ask George to **reconsider his position on not engaging** on these matters until the MOU is resolved.)

Further Background

Grant Agreement/MOU

Current NFSP position:

- The Grant Agreement is a given - it was part of last year's NT discussions.
- However NFSP have introduced a clause that requires PO to pay 3 years (£7.5m) in the event of termination - which, from NFSP's perspective, could only occur for a material breach.
- This payment is protection that will allow NFSP to re-form from a position of having zero subscription payments.
- NFSP will not accept the principle of a break clause linked to agreement to a termination payment.
- If no agreement is reached, NFSP have options - most likely a merge with CWU.
- In such circumstances NFSP will withdraw support for the compulsory aspects of NT - i.e. transitional locals and the cliff, and actively seek to prevent PO from making these changes.

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- Equally, NFSP will not support Network Extension and again will seek to prevent PO increasing network size.

Current position of negotiations:

- NFSP have withdrawn from talks on the basis that PO's insistence on a break clause is a red line for NFSP.
- PO has offered to continue talks and proposed a draft break clause with associated review process.
- We have also emphasised the need to discuss the cliff – we believe NFSP's expectation of the scale of branches that will be impacted is far greater than reality – this will be driving their belief that they can disrupt us significantly and that there is a greater financial benefit that they can take advantage of.
- NFSP are under pressure to resolve this sooner rather than later - they have aspirations to hold a special conference and their other options - CWU and NFRN - will not be on the table for ever. Also, in the event of us proceeding successfully in delivering the cliff and Network Extension without NFSP support, the value of that support is clearly diminished.
- Our key initiatives - the NT cliff and Network Extension - do not require external action prior to April/May (this aspect has not been discussed with NFSP in any detail due to their insistence that they are separate from the Grant Agreement). We are confident we can deliver without NFSP's support, though obviously the environment would be more difficult.

Our position/Next steps:

- We remain of the view that a strong relationship with NFSP is the right outcome - but not at any price.
- Therefore we should not compromise our position and will confirm our approaches for delivery of the cliff and Network Extension, which will include a scenario of no NFSP support.
- We are undertaking close engagement with BIS (we have met twice in the last week) to ensure we have their input and that they are supportive.
- If NFSP do not agree to discuss the cliff, we will write to them outlining the scope of it to ensure a clear audit trail of engagement, and take a similar approach with Network Extension – though noting that our openness in sharing our detailed plans for both will have to take due consideration of a situation where we may be in dispute.
- We are drafting a further version of the termination clauses in an attempt to clarify what constitutes a material breach in order to try to provide further comfort that the agreement will not be terminated on a whim. This is intended to strike the balance NFSP need to ensure they maintain their independence.

Although we have yet to position it as follows, the reality is that we need to convince George that a 15 year deal fully independent and funded by Post Office, with a 5 year break clause with a termination payment that equates to a 1 year notice period, is a far better deal than a merge with CWU that simply promises 5 years in an organisation that cannot afford to subsidise the NFSP with a declining membership, is frankly bankrupt and likely to merge with Unite within that timescale.

Other potential issues/topics

Mails Advisory Council

The first meeting of the sub-group took place on January 8th, attendees from Post Office being Martin George, Kevin Gilliland, Mark Siviter, Magnus Schoeman and Nick Beal. Similar level of attendees from RM and NFSP (though noting that George did not attend as he has delegated the lead on this to Ian Park). Session was generally well received with discussions on NFSP's Internal Challenge paper, current market outlook, simplification, need for commercial alignment between all 3 parties, prospecting, operational challenges and expanding the postmaster role with a consideration of collecting and delivering out of hours a la a lifestyle courier.

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We are in the process of setting up further meetings. General view from PO is that if we work well with NFSP, we can leverage this forum to our mutual benefit in terms of the relationship with RM.