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To: Permanent Secretary
From: Beth White – GRO
SCS clearing: Carl Creswell – GRO

Meeting Brief: Nick Read, CEO Post Office

Date, time & location of meeting: Monday, 17th October 2022

Meeting attendees:
- Nick Read, CEO Post Office

Officials in attendance:
- None – Nick has requested this to be a one-to-one.

Objective

A catch-up with Nick Read to discuss current priority issues. Nick has informed us that he wishes to discuss POL's funding position and the impact this is having on the business and its priorities; cost of living challenges for postmasters; and industrial action. Briefing (including lines to take) on these and other live items can be found below.

Context

The Post Office Horizon IT Inquiry started its hearings in w/c 10 October. Nick Read heard criticism at the Inquiry about POL's disclosure of documents.

Nick has also been talking recently to David Bickerton and Carl Creswell about delivery of the compensation schemes (outlined below). POL have expressed a view that BEIS's oversight can be more bureaucratic than for schemes overseen by BEIS (e.g. GLO). We have explained that we do not share that view but are keen to ensure we are all focused on making positive progress and are looking to simplify oversight – as we have done on the Historical Shortfall Scheme and are beginning to do with Overturned Historical Convictions compensation – once delivery is underway and into a rhythm. We also have continued to keep up the pressure for POL to make rapid payments to postmasters. Sir Wyn Williams will be holding a hearing on compensation in early December.

At his introductory meeting with Minister Russell on 10 October, Nick mentioned that he will need BEIS's help on the forward-looking pressures for POL, where we need to ensure alignment with the Post Office Policy Review (that is supported by our new Ministers). Nick will be meeting Minister Russell again on 18 October, his regular monthly meeting with the Minister.

Key points to make
- The Secretary of State regards the Post Office network and speedy resolution to Horizon compensation as important priorities.
- Good to know that you have started to work with Minister Russell.
- Important that we continue to work together closely to resolve the ongoing challenges.

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- Would like to add my thanks for your leadership during some challenging times.

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Agenda Item 1 - POL Financial Position / Three Year Plan

Points to make

- I understand that the outlook has changed significantly since your three-year plan was approved in August 2021, and that you are therefore working on a revised plan.
- What is your emerging understanding of the challenge and what has caused it?
- How are you planning to address the challenge? [If Nick raises potential policy and/or financial asks of HMG:] What is the timing, when will they be received, and when do they need to be resolved?
- What does this mean for the finalisation of POL accounts? Will you again need to delay the accounts beyond mid-December to allow time to work these issues through?
- [If raised] it is important that the independent Inquiry is given the time and resources to investigate fully the matters that Ministers have asked it to. Even if, like other inquiries, this means it takes longer, and costs more, than originally hoped.

Background

- POL's actual performance has fallen significantly short of forecasts set out in the August 2021 three-year plan. This is due to a decline in key product revenue (mails), coupled with inflationary pressures, increased technology spend, and the growing cost of addressing historical matters. POL tell us that the financial pressures have been compounded by their SR settlement being lower than they requested (albeit it was revised upwards by the previous SoS following the SR).
- Latest forecasts indicate that, without mitigating action, POL will breach the financial covenant associated with the borrowing facility provided by BEIS consistently from August 2023 onwards.
- POL are taking action to address the expected significant gap, including adjustments to New Branch IT rollout (Horizon replacement); shrinking their change programme; and putting in place new cost and headcount plans.
- We understand that POL's mitigations may include a financial ask of HMG (a loan to facilitate invest to save measures and ensure that headroom isn't breached). Further plans will be submitted to POL's Board in early December, but we are in regular discussion in the meantime.
- POL are due to publish its Annual Accounts mid-December, although this looks tight.

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Agenda item 2 - Cost of living

Points to make

- I recognise that these challenging economic times are having an impact on the profitability of many postmasters' businesses.
- I note that you recently made some changes to postmaster remuneration – how have these been received?
- I am pleased that postmasters have welcomed the Energy Bill Relief Scheme, but understand their concern around what will happen at the end of the initial six months.
- Further details regarding the review (of the EBRS) will be published shortly; I know the team are in close contact with colleagues at POL regarding this matter.

Background

- The National Federation of Subpostmasters (NFSP) and other campaigning groups have highlighted the difficult financial situation facing postmasters. The cost of running a business has risen (e.g. due to the increase in National Minimum Wage and energy price rises), while demand for many Post Office products and services has slowed.
- POL are also concerned. About a third of their post office franchises are loss making; of the remaining branches, 1,500 make less than £5k profit/pa. One in three postmasters say that they plan to leave the network within the next five years, and POL are finding it increasingly difficult to replace branches given the declining commercial appeal. That said, we have also heard that churn within the network has been less than expected.
- In late August, POL made some changes to postmaster remuneration in response to postmaster demand. Payments for certain transactions have increased and postmasters received a one-off additional payment in September. Cumulatively, this will amount to an average annualised increase in remuneration of 4.8%.
- Energy prices were a major area of concern, so the Energy Bill Relief Scheme has been welcomed. However, postmasters are anxious to be in scope of support beyond the initial six-month period. Nick Read wrote to the Secretary of State urging him to include post offices in the definition of 'vulnerable businesses'; officials continue to discuss this matter with POL as further details of the policy are announced.

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Agenda item 3 - Industrial Action

Points to make:

- I recognise that the CWU's ongoing industrial action – while affecting only a small number of Post Office staff and branches – will be having an ongoing impact within the network, and on consumer confidence.
- Ultimately, this is a matter for the CWU and Royal Mail Group to resolve. Ministers do not intend to intervene or put in place contingency measures.

Background:

- The Communication Workers Union represents staff in POL's directly managed branches (DMBs) and within administrative and supply chain roles.
- Strikes have resulted in minimal branch closures (c. 50 on the most recent day of industrial action). However, strikes among Royal Mail workers have a knock on effect on the network, and POL are particularly concerned that customers will switch to other parcel suppliers in the run up to the busy Christmas period.
- Nick has previously asked whether HMG will intervene and/or put in place contingency measures; we have asserted that this is a matter for RMG.

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Agenda Item 4 - Historical Matters and Detriment

Post Office Horizon IT Inquiry

Lines to take

- It remains important that POL fully contributes to the inquiry, and must make appropriate resources available to do so.

Background

- The main phase of hearings are just beginning with opening statements w/c 10 October and Phase 2 hearings starting 17/10, participants in this phase include Alan Johnson and Stephen Byers
- Currently, hearings are expected to last until May 2023, however, Sir Wyn Williams has now indicated on the Inquiry's website that he hopes to conclude hearings in 2023.
- This additional delay will increase POL's inquiry costs.
- As part of the opening statements, there was criticism of POL by postmaster representatives that POL had not completed its disclosure exercise.
- Nick was at the Inquiry Hearing on Friday, where BEIS, UKGI, Fujitsu and POL gave their opening statements.

Overturned Historical Convictions (OHC)

Points to make

- I am pleased that good progress has been made since settling the two OHC lead cases. It's important to keep that momentum going.
- I am pleased to hear that Post Office is swiftly progressing claims for OHC non-pecuniary damages following the outcomes of the Early Neutral Evaluation, and that Hudgell has agreed to a process to set up a framework for handling pecuniary claims
- Key priorities should be to engage with postmasters and their legal representatives as fully as possible, supporting postmasters with overturned convictions to submit full claims, and any with outstanding Horizon-related convictions, to take the required steps to overturn their convictions.
- I understand that POL is currently undertaking a cost challenge concerning operating and legal costs. Officials are standing ready to consider the best ways forward for future delivery of compensation for those with overturned convictions, including assessing POL's proposal for the future remediation model. It's important that we see POL's handling and transition plan to ensure this work does not slow progress on claims being settled.
- I know you are working with officials to make as much demonstrable progress on compensation matters ahead of the Inquiry hearing on compensation on 8 December.

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Background:

- As of 26 September, 81 convictions had been overturned. 80 applications for interim payment had been received, with 76 offers accepted and paid out to claimants, totaling £7.68m.
- Two full and final settlements have been reached.
- As of 13 October, POL has received a further 29 claims for non-pecuniary damages, including those which were submitted to the Early Neutral Evaluation. 9 offers for non-pecuniary damages have been made and accepted, with 4 of those paid or payment processing, and a further 8 offers are expected to be made this week. The remaining claims are being processed in POL.
- POL has been undertaking a review of its delivery of historical matters and arrangements with legal advisers having identified a £35m cost challenge in savings required. HMU costs are one of a number of factors putting substantial financial pressure on the business. This work is ongoing with the intent to report to the POL Board in November. UKGI is closely involved in challenging the proposals put forward by POL.

Historical Shortfall Scheme

Points to make

- I am pleased to see that Post Office continues to make good progress in the delivery of the Historical Shortfall Scheme. It is also positive that Ministers recently supported the announcement that late applications to the HSS will be accepted and funded.
- The priority is two-fold: i) getting fair offers to the current cohort of eligible claims as swiftly as possible, with BEIS' ambition to have 100% of offers issued by the end of the year (currently at 82%); and ii) processing the late applications as quickly and effectively as possible following the announcement of Government funding.

Background:

- As of 4 October, 82% of eligible applicants (1,938) had received an offer. The cumulative amount offered so far is £52m, of which £34m has been paid (1,566 offers) with 157 offers disputed. Minister Scully set the expectation that 100% of these original HSS cases should be complete by end December 2022.
- POL aim to have issued 90% of offers by the end of October, and are aiming to be in a position to state that the HSS is "substantially complete" by issuing 97% of offers by 8 December (a hearing about compensation at the Post Office Horizon IT Inquiry). The remaining cases are the most complex and some cases rely on third parties or further information from claimants ahead of the offer being issued.
- On 6 October, the Government announced that it would extend its funding of the Historical Shortfall Scheme to allow late applications to be accepted. The first late application forms were issued on 11 October.

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Postmaster Detriment

Points to make

- I understand that the business case relating to compensating postmasters who went unpaid during a period of suspension is with HMT Ministers. Please be assured that my officials are working to secure clearance on this is as soon as possible.
- BEIS officials are working closely with Post Office to agree an approach on developing a business case for other identified forms of detriment.

Background

- The Suspension Pay related business case is currently with HMT, who have sent advice to the CST, seeking approval.
- Engagement between BEIS and POL on other identified forms of detriment continues although it is still at an early stage. We will submit an update to yourself and Ministers on this issue in due course.
- Unlike other areas of postmaster compensation, there has to date been no pressure at all – including from postmasters or MPs – to progress this. POL had been concerned that it would be raised at the Williams introductory hearings on 11-14 October. However, at the time of writing it had not been – and the key submissions have already been made.

Group Litigation Order

Points to make

- I understand officials are working with your team on what will be required of Post Office for disclosures ahead of the full scheme launch.
- We will need POL's help given where the evidence about GLO claimants is stored. We will look for ways to keep costs down – but in the end this is a job which must be done.
- We hope to be able to announce the scheme by the end of this year, subject to internal approvals.

Background

- POL have quoted us £2.8m to provide full data and shortfall analysis for each of the GLO claimants that would enable us to evaluate claims. We will need to discuss this with them in the context of their wider financial position.
- BEIS officials are working on narrowing the scope of the ask on disclosures, particularly given there will be resource pressure for POL as they work through evidence on HSS late applicants and OHC.
- The GLO business case will be taken to BEIS's Projects and Investments Committee on 22nd November. You should be aware that POL have said they do not have the funds to deliver this scheme on BEIS's behalf.

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Agenda item 5 - BEIS Policy Review

Points to make

- We have been working closely with Post Office on the Review including through regular catch-ups and in depth policy discussions. We are now beginning working with Post Office to develop policy options following the first workshop being held this week.
- We are also progressing with the announcement of the review, which is expected to happen in early November. We are carefully considering the messaging around the announcement to give us the space to speak to stakeholders and develop policy, without creating mistrust.
- There is crossover between the work POL is doing on their 3-year plan and the review. We are working with POL and internally to make sure we are thinking through how short term solutions for the 3 year plan may impact on the review and whether there is anything from the review that could be brought forward as a solution.
- The focus is understanding the policy position with regards to customer need, financial considerations will follow from this, and being run as part of the review, but for internal purposes rather than any consultations.

Background

- Since the last time that the Government set out a strategy for the Post Office in 2010, the world around the Post Office network has changed and it continues to do so. People now interact with key services online rather than face-to-face. The ways in which people and businesses access their cash and banking services have changed too.
- As the 100% Shareholder in the Post Office, it is crucial that the Government now undertakes this review to ensure our Post Office network is fit for the future and achieves value for money for the taxpayer.
- The Post Office Policy Review aims to ensure that the Post Office continues to provide key public services for the many people that rely on its services. It will consider the broader role of the post offices in communities across the UK and their social purpose, including in ensuring accessibility and inclusion. It will also ensure that the Post Office network can deliver the services needed for citizens while achieving value for the taxpayer funding that provides these services.
- This review will be delivered by BEIS, with the support of an independent Chair which we are in the process of shortlisting.
- The Government asks and commercial model are to be completed in 8 months with further financial modelling to be completed in parallel to the drafting of the consultation, if needed, in the following months.