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Meeting with Paula Vennells, CEO of Post Office Ltd

03 September from 1245 to 1330
1 Victoria Street, Room 8F

External attendees:

Paula Vennells, Chief Executive Officer of Post Office Limited (POL)
Alice Cookson, Head of Public Affairs, POL

Internal attendees:

Nick Parker: Post Office Shareholder Team, UKGI, **GRO**
Stephen Clarke: Post Office Shareholder Team, UKGI, **GRO**
Sam White: Post Office Policy Sponsor, BEIS, **GRO**

Purpose of meeting and Handling:

This is an introductory meeting. Since becoming CEO in 2012, Paula has overseen POL's progress towards becoming a commercially sustainable and profitable business (£13m operating profit pre-subsidy in FY 2016/17 with £35m provisional for FY 2017/18), whilst maintaining its public service obligations in line with Government's policy of keeping a stable and minimum network of branches meeting nationwide access criteria. This meeting will facilitate your understanding of the business's recent achievements, as well as the current opportunities and challenges facing it. We recommend that you are largely in listening mode. The most important thing to impress upon Paula is the need for POL to submit in writing their contingency plans for handling the Horizon litigation in advance of briefing you and the Permanent Secretary orally on 17 October.

Agenda:

There is no fixed agenda but these are key areas of interest to Paula Vennells and BEIS. Paula will want to focus on agenda item 1, but from a BEIS perspective it is useful to have a quick update on POL's handling of the business risks inherent in agenda items 2 to 5. However, as time is limited, we have listed these in order of priority while Paula will be happy to answer questions on the points you most want to focus on.

No	Item	Time
1.	POL's Financial Performance, Business Transformation and Growth Opportunities	20 mins
2.	Contingency Planning for Civil Litigation (Horizon Case)	5 mins
3.	Plans for Directly Managed Branches and Comms Handling	5 mins
4.	Update on Simplification and Postmaster Remuneration	5 mins
5.	IT Infrastructure	5 mins
6.	Any other business	5 mins

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Points to make 1: Financial Performance, Business Transformation and Growth

- Congratulations on the provisional financial results for FY 2017/18. A second successive year of operating profits (pre-HMG subsidy) after sixteen years of losses is a great achievement.
- How is POL utilising the £370m funding package from Government to build on this success and to continue POL's journey towards commercial sustainability?
- I am aware that my officials are working with UKGI and POL to discuss the future strategic direction of POL. What are the key opportunities and challenges ahead for the business?

Points to make 2: Contingency Planning on Civil Litigation (Horizon Case)

- I understand that your Legal Counsel will brief me and the Permanent Secretary on POL's contingency planning in advance of November's Horizon litigation hearing.
- Important that POL's latest contingency plans are submitted in advance so that the limited time available at the meeting can be maximised for discussion. These plans should deal comprehensively with the business, reputational and financial implications of any adverse rulings.

Points to make 3: Plans for Directly Managed Branches and Comms Handling

- I understand that POL will accelerate its programme of franchising Crown branches over the coming year. What reaction do you expect and how will POL manage this?

Points to make 4: Update on Simplification and Postmaster Remuneration

- I understand that POL's simplification programme has caused concern among some branch operators. What is the latest situation and what reaction do you expect once transition payments (at pre-simplification levels) are removed in October 2018?

Points to make 5: IT Infrastructure

- I understand that POL is undergoing a wide scale IT transformation programme, which is business critical, and that replacing old infrastructure poses risks. Can you update me on how this is progressing and how risks are being managed?

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& Industrial Strategy**Relevant context:**

Financial Performance – As CEO, Paula has overseen the transformation of the business and its significant progress towards commercial sustainability. In FY 2016/17, POL delivered its first operating profit (EBITDAS, pre-HMG subsidy) in 16 years at £13m. Provisional results for FY 2017/18, due to be announced in September, show a better than expected operating profit (EBITDAS, pre-HMG subsidy) of £35 million. POL's subsidy from Government has declined from £210m in 2012/13 to £60m in 2018/19, and will continue to fall with a shared aspiration for zero-subsidy requirement from the early 2020s.

Transformation of the Business – POL's increased profitability is partly due to an extensive modernisation programme since 2012. Costs have been cut by franchising loss-making Directly Managed Branches (DMBs or "Crowns") and by moving the majority of agency branches across the network (over 7600 out of c11,300 agency branches) from fixed remuneration contracts onto variable remuneration contracts based on the volume of transactions carried out in-branch. Customers have also benefitted as investment in these 'modernised' branches has delivered longer opening hours, improved accessibility and better branch layouts. All this has been enabled by significant Government investment of almost £2bn from 2010 to 2018. A further £370m allocated from April 2018 to March 2021 – split into £210m investment funding and £160m in subsidy payments - will enable further modernisation of the network and strengthen Post Office's central infrastructure. In addition, it will support new business initiatives and help POL to meet the competitive challenges in the markets in which it operates.

Growth Opportunities

The Post Office provides **access to basic banking services** covering 99% of personal banking accounts and 95% of business banking accounts under its framework agreement with 28 high street banks. Banking turnover increased by £20 million in 2017/18, cash withdrawals grew by c.6% and cash deposits by 28%. To grow revenue and improve financial inclusion further, POL and UK Finance launched a joint "5-point plan" to raise public awareness (at the request of the Economic Secretary to the Treasury) and POL aims to secure higher transaction fees from the banks in upcoming negotiations over a new banking framework contract. POL will also extend the banking framework to credit unions via "aggregator" platforms later this year, which should benefit financially disadvantaged customers. Paula Vennells sits on the Financial Inclusion policy forum that is co-chaired by the EST John Glenn and the Pensions and Financial Inclusion Minister Guy Opperman.

POL recently acquired the bills payment business of **Payzone UK**. If approved by the Competition and Market Authority (CMA), this will allow POL to compete more effectively in the competitive bills payments market and to win new contracts. Over time, POL hopes to partly integrate the two business to increase footfall to Post Office branches and Payzone outlets (25,000 locations combined) generating more revenue for branch/outlet operators and for POL to reinvest in the business.

POL is also working on other initiatives including: a new **retail strategy** featuring branches in new formats such as 'post express', to ensure that running post offices remains an

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attractive proposition for postmasters as well as meeting changing customer needs; and extending provision of **identity verification** on behalf of Government through the “Verify” service (a secure way for people to establish identity online and thereby access government services, which generated £10m in revenue for POL in 2017/18) to providing similar services to the private sector.

Horizon litigation – POL have employed external legal advisors including a QC as they prepare for the first main hearing in November. Legal teams from UKGI and POL have put in place a disclosure protocol to ensure that legally privileged information can be shared with the Perm Sec and Ministers. However, UKGI are concerned that POL have not done enough to prepare for the potential business, reputational and financial implications of losing. On 17 October, POL's legal counsel and CEO will brief you and the Permanent Secretary on their contingency planning but we also want POL to share their plans in advance so that, in the limited time available at the meeting, you can focus on properly scrutinising these plans. Given legal privilege restrictions, we cannot enter into details on the legal case here or at the meeting with Paula on 3 September, but UKGI's recent update submission to the Permanent Secretary (dated 10 August) provides all the necessary background and latest state of play on the case.

Crown Franchising – Since 2012, over 110 directly managed “Crown” branches have been franchised, with Post Office appointing well-established retailers to run branches previously owned and operated by POL. These franchises benefit from more accessible layouts, refreshed environments and longer hours. Franchising has helped Crown branches move from a £46m loss in 2012 to break even today. However, given that many remaining crown branches are still loss-making, POL will continue franchising to further reduce POL's call on taxpayer funding, with ambitious plans to franchise over 70 Crown branches in 2017/18. To facilitate this, on 31 July POL made an announcement requesting expressions of interest for franchising in areas around DMBs and has since received 140 expressions of interest. While franchising makes good business sense and is generally well-received by customers once implemented, it has generated significant opposition from unions and local communities in the past and it will be good to hear Paula's plans for handling this.

Simplification - POL has worked with postmasters to streamline branch processes and introduce automation. POL views this as critical to attract new postmasters, who can choose other, simpler concessions to attract people into their stores (e.g. hot food or coffee, or Paypoint terminals), and believe that simplification will benefit POL and existing postmasters over time, by generating time savings that can be used for more revenue-generating activities and cost reductions. However, some existing postmasters and multiple retail partners – notably the Co-op – feel that these time savings will not compensate them sufficiently for the remuneration cuts that accompany simplification. Recognising such concerns, in April POL announced that further time savings would not be accompanied by remuneration cuts. However, we expect renewed reaction from the branch network with the expiry of POL's year-long transition payment (which preserved pre-simplification remuneration levels to give postmasters time to adapt) in October 2018.

IT infrastructure – POL is in the middle of upgrading what was a highly-antiquated IT architecture and has made good progress over the last two years. It is about to embark on migration of a cash management system ('POLSAP') to a more modern and resilient system. The migration needs to happen, as the status quo is costly and fragile – but the process carries risks and has been put back repeatedly. POL have done significant

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preparation and contingency planning, and we have pressed them to seek external assurance before going ahead. We are still waiting for POL to provide a final date for the migration to take place.

Biographies:

Paula Vennells, Chief Executive Officer, Post Office Limited

GRO

Paula has worked for Post Office Limited since 2007 in a number of senior roles, including Managing Director, becoming Chief Executive on 1 April 2012. Prior to Post Office, Paula spent five years with Whitbread plc, latterly as Group Commercial Director. She began her career with Unilever and L'Oreal and has held directorships in sales and marketing with a number of major retailers, including Dixons Stores Group and Argos. Paula is a Non-Executive Director of Morrisons plc, a Trustee for the Hymns Ancient and Modern Group and a member of the Future High Street Forum. At the weekend she works as a Pastor in her local church and community.

Alice Cookson, Group Communications, Head of Public Affairs, Post Office Limited

GRO

Alice is a public affairs professional with over 10 years' experience working in-house across the public, private and third sectors. She has previously worked for Royal Mail Group, Gatwick Airport Ltd, Sport England and London 2012.