

Post Office update for Kelly Tolhurst, 3 April 2019

Litigation

- On 15 March, Justice Fraser handed down judgment on the first “Common Issues” trial, finding that the contract between Post Office and its Postmasters is relational and, as a result, various terms must be implied into it. The onus has shifted to POL to prove that there has been a loss in-branch caused by a postmaster and that POL has carried out a fair investigation, which presents significant operational challenges. POL is considering its options to appeal this judgement and has until 16 May to do so. POL is also considering whether to adjust its own legal strategy in the light of the judgement, given that its legal advisors had predicted a much more positive outcome.
- The recusal hearing began on 3 April, with Lord Grabiner QC representing POL before Justice Fraser. POL submitted an application for the judge to recuse himself from hearing the rest of the litigation, on the basis of apparent bias, as manifested in the first judgement. The Board took this decision following additional independent legal advice from senior barristers. If Justice Fraser does not recuse himself, the hearing will move to the Court of Appeal (date to be determined).
- If the recusal application succeeds, the second “Horizon Issues” trial will be restarted. If the application fails, the Horizon Issues Trial will resume – it was suspended on receipt of POL’s recusal application having reached the witness statement stage. We understand that POL will not apply for a retrial on the Common Issues, even if the recusal application succeeds.

CEO and CFO

- Al Cameron is acting as CEO, with Paula Vennells stepping down from day-to-day activities. On 3 March, the CST approved his pay as interim CEO and POL will now move to formally announce his appointment.
- Afua Kyei has accepted the position as interim CFO, although she has not yet been formally appointed and her start date is being finalised.
- We are waiting for BEIS spads to respond to the proposed pay package for the permanent CEO, following your approval on 20 March. It will also require approval from the CST and further delay will make it difficult to hit your aspiration of making an appointment in September. We anticipate that the CST will be cautious about approving the proposal and a letter from the Secretary of State might help to speed approval.
- POL have appointed an independent member to the selection panel, as requested in your letter to Tim Parker on 20 March.

POL’s Annual Budget / Plan for FY 2019/20

- POL’s financial performance in 2018/19 was strong and initial forecasts suggest that trading profit will reach £60m, up from £35m in 2017/18 and well ahead of a target of £50m. This will be finalised during the audit process and we expect the annual report to be published in August.
- POL have requested more time to finalise their budget for 2019/20, to enable them to consider implications stemming from the litigation judgment. These

include revising forecasts for legal fees and litigation and whether to adjust their plans for further work on agent processes, spending on brand protection and the pace of the franchising programme. POL will call an extraordinary Board meeting in April to sign off the new budget.

- POL's draft budget for 19/20 has a central profit target of £87m from a revenue of £989m. A change in accounting rules will give a one-off boost to profits of around £10m, so that on a like-for-like basis the profit target equates to a further increase of £17m (28%). The primary driver of the rise is by additional revenue from Banking Framework 2, which is partly offset by a decline in digital identity revenue and a 2.6% pay increase for staff. UKGI continue to challenge POL on these targets.
- Bonuses for POL executives and staff are overwhelmingly (90%) based on achievement of the trading profit target. POL propose the thresholds for minimum bonus, and the stretch target are set at the central target +/- 10%.
- POL's investment programme ('transformation spend') is forecast to be £170m in 2019/20. £42m of this will be funded by the remaining amount of the BEIS Funding Agreement, with the rest funded by POL's own resources. The biggest areas of spend include DMB franchising, cloud enablement and an agent portal.
- POL propose using higher profits to increase transformation spend, from the agreed £455m to £500m. No extra BEIS funding is required to facilitate this.

POL role in POca replacement scheme

- POL has a contract with the DWP to provide pensions and benefits to customers without a bank account through the Post Office Card Account (POca). The current POca contract (2015) expires in November 2021 and will be replaced by a smaller scheme: the DWP Future Method of Payment (FMoP) service. DWP is finalising the business case for FMoP for approval at their Investment Committee on 5 May 2019 and the contract will be tendered over the summer. Several legacy issues will need to be resolved as part of the POca migration, on which Ministers will be briefed in due course.
- POL and DWP agree that the new FMoP service should, at minimum, provide the features of POca. POL are adamant that the new service should be accessible at Post Offices, but this is not currently a requirement for DWP. POL have asked that a BEIS Minister write to their DWP counterpart by 30 April to support a continuing role for POL in the POca replacement scheme. Such a letter would:
 - o Emphasise the Post Office's role as a provider of Government services;
 - o Support DWP's work to develop a POca replacement and run a full tender process to identify a provider for it;
 - o Encourage DWP to include minimum accessibility requirements for the new service in the FMoP business case and highlight the potential benefits
 - o Note that it will be important to resolve POca legacy issues as part of this process.

- We recommend that you agree to write to Guy Opperman MP by 30 April 2019.