

Briefing for Paula Vennells meeting with Postal Affairs Minister, Kelly Tolhurst MP**Date: 3 September****Time: 12:45-13:30****Location: Department for Business, 1 Victoria Street**

You are meeting with the new Postal Affairs Minister, Kelly Tolhurst MP, on September 3rd from 12:45-1:30pm. This is an opportunity to present the work of the Post Office in an exciting manner, showcasing our commitment to increase our profit and drive innovation. In the time available, you will wish to focus on a limited number of core themes and messages, as outlined below:

Key Messages

- **Turnaround of the PO: (p2)**
 - £120m loss to £35m operating profit. We now have a target of £100m OP within three years.
 - 7,700 branches modernised; 200k additional opening hours; 4000 branches trading on Sunday and very high customer satisfaction levels.
 - There is a continued transformation and investment in IT and digital.
 - We have a strong, independent, board and experienced GE.
- **Future network expansion plans (p3)**
 - The network is at its most stable for years.
 - We are bucking the trend in retail with network expansion plans.
- **Customer services: (p4)**
 - We play an important role in the financial services space, offering the banking framework. Financial inclusion is very important to us.
 - As part of our growth strategy, we have recently announced our intention to acquire Payzone, thus bolstering our offer in the bill payments space.
 - Royal Mail continues to remain a long term partner.
 - Our relationship with the Bank of Ireland has been key to our success, although we are in serious discussions about the future relationship.
- **Govt/citizen services: (p5)**
 - Post Office is a natural partner for Government across range of services and policy issues.
 - Existing relationships are strong – eg with DWP on POCA and Universal Credit, Passport Office, and DVLA, although we recognise that there is more we can do to work closely together.
 - For example, there may be Brexit opportunities: both revenue (identity, digital passports, or international driving permits) and through the use of our network.
 - Identity is one area where Government should be using the Post Office more.
- **Topical issues and risks: (p6-10)**
 - Group Litigation - brief explanation and what to expect on 17 October- (p6).
 - Back Office Transformation Programme (p7).
 - Cabinet Paper timings (p8).
 - Industrial Relations (p9).
 - Topical Issues (p10).

(N.B Full biography and constituency data is included on p11 and 12)

Turnaround of the PO

a) Transformation

- The business is delighted to have made a profit for the second successive year, with strong performances in banking and mails.
- Over the past few years we have transformed the Post Office network, taking the organisation from £120m annual losses to a £35m trading profit (excluding Government support). N.B we will be laying the annual reports and accounts before the House after recess.
- Throughout this process we have modernised over 8,000 branches, securing an additional 200,000 opening hours and 4,000 branches open on Sundays.
- At the same time we have reduced the network subsidy from Government from £210m pa to £60m pa, reducing to £50m from next year.

b) Government Funding

- We welcome the Government's support in backing us with the recent funding commitment which will enable us to 'finish the job' in terms of making the Post Office commercially sustainable.
- This funding will ensure that we can achieve our goals; we know we need to get this right
- That means building a sustainable and profitable business so that we can reinvest in our network of Post Office branches.
- We are now entering discussions about what the business will need after 2021 in terms of working capital, access to borrowing and network subsidy.

c) Our future ambitions

- We recognise that being reliant on Government funding is not sustainable.
- For the coming year, we will maintain our focus on costs and simplification, and seek to exploit new opportunities, for example in digital identity.
- We will also be continuing with our major programme of IT improvements, stabilising existing systems and reducing operational risk.
- We are confident in our ability to do this, which is why we have set a £100m operating profit within three years.

d) Our management structure

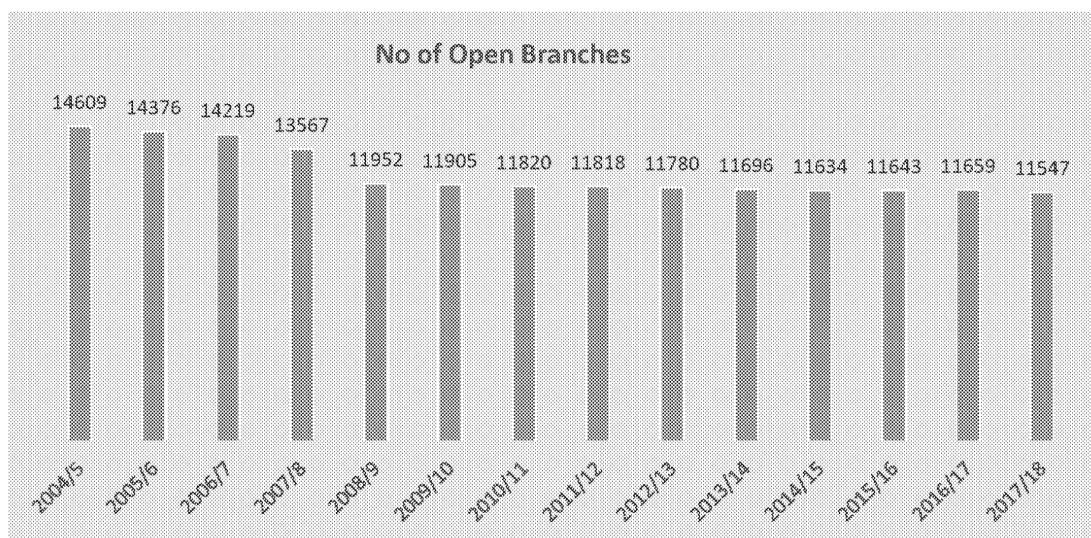
- We have a strong independent board, and a highly experienced Group Executive who are working hard to achieve these successes.
- We have a very positive relationship with BEIS and UKGI and we are keen to see this strengthen and deepen.
- We now have a whole new set of colleagues at UKGI, and a fresh BEIS sponsoring team, and we are working together to bring one another up to speed on key issues and refining our ways of working to stimulate efficiency and predictability around routine process, to create space for more strategic/commercial discussions.

Future expansion plans - network growth

Strategy:

- We know that customers want convenient local access to branches near where they live and work – especially for things like home shopping returns, posting items and withdrawing cash etc.
- We've got an ambition to grow our network, including doubling the number of branches in towns and city centres.
- Over the last few years we've already opened new branches in communities which did not have a Post Office – including a 24 hour branch on New Oxford St - and our focus remains on opening additional smaller branches so that we can tap into new customer demand.

We have made significant progress in recent years meaning we start from a position of strength



Customer services:**a) Banking Framework**

- The banking framework, serving 99% of the UK's retail and 95% of small business, is going from strength to strength with significant growth in business deposits particularly (increasing c.40% in the last year).
- Later this year (likely October/Nov), we will be extending access to certain Credit Unions, providing them with access to an unrivalled branch network.
- The contribution of the banking framework to HMG's efforts to reduce financial exclusion has been recognised, with Paula Vennells now part of HMG's Financial Inclusion Policy Forum, co-chaired by HMT and DWP, and our active participation in the working group that reports to it.
- As the original framework approaches a key moment (repricing at the '3 year' point ready for the period from 01/01/20-31/12/22), increasing what we charge the banks to sustainably cope with the impact of additional cash will be a key task.
- We welcome support to ensure that UK businesses and communities still have a sustainable and accessible place to bank as that change continues.
- It is important that Government supports the Post Office when the banks make noise about rising costs.

b) Payzone:

- As part of our growth strategy, Post Office has recently announced its intention to acquire Payzone's bill payments business. This is a strategic investment that means the Post Office will be able to offer a combined network of nearly 25,000 payment points across the UK.
- This will then be subject to CMA approval. We are very happy to provide the Minister with a more detailed briefing should she request this. UKGI officials are aware of this acquisition, which we are hoping to complete by the end of October.

c) Royal Mail:

- The exclusive arrangement between Post Office Ltd and Royal Mail Group for mails distribution is due for renegotiation, with the current contract due to expire in 2022.
- Our objectives will be to maximise the value of the contract to Post Office, seeking some material improvements, particularly to challenge and/or leverage some of the exclusivity provisions.
- Specifically, we want to be able to sell Royal Mail products online and to offer a non-exclusive service for click and collect. We believe these issues are critical to meeting customer needs.

d) Bank of Ireland

- Post Office and Bank of Ireland are engaged in the re-negotiation of their long-standing partnership covering travel money and retail financial services products.
- The Post Office interests lie in preserving the best aspects of the current arrangements, while re-balancing economics, re-aligning incentives and relaxing some of the exclusivity arrangements. We are likely to be working with more FS partners over time.
- Post Office is focused on the development of a range of innovative products designed to appeal to those facing particular challenges in access to mortgage finance, especially first time buyers without substantial savings.

e) Customer Hub

- Post Office has launched its first mobile application to support its successful Travel Money Card and Travel Insurance business.
- This is not only a great way to stimulate demand for these products and simplify the customer journey, but is an important proof point in our plans to digitise our products and services.

Government /citizen services:

The Post Office is a natural partner for Government across range of services and policy issues

Cabinet paper:

- Post Office is in early stage discussions with UKGI and BEIS colleagues on the development of a Cabinet paper designed to highlight the role the Post Office can play in helping Government Departments to deliver public services and realise their public policy objectives.
- The Post Office is already doing this: for instance, the banking framework is helping to address the challenge of access presented by financial exclusion by making its entire network available to all retail and small business banking customers irrespective of who they currently bank with, and plans to extend this to credit unions from Q3 2018. (N.B see p8 for a more detailed briefing).

Digital Identity

- Digital identity is a strategic opportunity for Post Office in support of UK plc on the global digital stage; though much remains to be done to stimulate the development of this market, including by Government.
- For instance, the take up of digital identity that meets high government standards will remain slow while Verify is limited to accessing a relatively small number of public services.
- We would like to see cross Government championing of Verify as the preferred, long term solution for Government Departments and Agency use cases, permitted use for private sector applications, and regulatory and legislative equivalence for certified digital identity to that of government issued documents (e.g. a regulatory framework that supports the use of Verify to open a bank account).
- Our market share of verify is 54% and we have the best completion rate. The Government Digital Service is currently challenging us to reduce the cost per transaction.

Brexit

- Whilst there are inevitably some challenges presented to the Post Office as a result of Brexit, we remain confident that there will also be a number of opportunities for us to support Government, and we are already in conversations with officials about some of these.
- For instance, it is possible that millions of UK holiday makers will require international driving permits to take their cars over to the continent after Brexit, and we are discussing ways in which Post Office might help issue these with the Department for Transport.
- There may also be opportunities for Post Office to help with the process of helping EU nationals residing here to document their rights, including their right to work, in the UK post-Brexit.
- We want to actively position Post Office, and our unrivalled reach across the country, as unique resource for Government.

Risks and Topical Issues

[N.B: You should avoid any detailed conversation on this topic to protect the litigation. A specific meeting has been arranged for 17 October. The Minister has also been briefed to avoid detailed discussion by UKGI].

a) Postmaster Group Litigation

Detailed briefings have been provided to UKGI under a protocol which is designed to protect Post Office's privileged legal advice.

- Litigation follows a number of years during which Post Office sought to understand the concerns of postmasters and address their issues. While many of the claims alleged faults with the Horizon computer system, to date no evidence of systemic problems have emerged, rather there is a pattern of operational errors in branch, as well as, in specific cases, where Post Office could have done more to support postmasters.
- Litigation was commenced in early 2017 and involves claims by 561 postmasters. The specific details of their claims have not been provided, and we do not have any details as to the possible quantum of damages that they may seek.
- Litigation is being managed by the Court in phases:
 - Common Issues trial (4 weeks in November 2018) - to determine the proper construction of the contract between Post Office and agents, and whether approximately 21 further terms should be implied into that contract
 - Horizon trial (4 weeks in March 2019) to determine the Horizon issues – the questions to be posed are still being agreed between the respective experts
 - Thereafter, and to be scheduled, one or more trials to determine whether in specific cases Post Office was in breach of contractual and other duties to postmasters, as a result of which postmasters suffered 'damage' and / or loss for which they should be compensated by way of a financial award of damages.
- The key risks in the litigation are that:
 - the Court's decision on one or more of the 'Common Issues' has a material adverse impact on Post Office's operations, and/or these operational issues create cash flow concerns
 - the Court determines that there are systemic issues with the Horizon system, such that transactions between postmasters and Post Office are not seen to be reliable
 - Public opinion goes against Post Office as a result of the decision such that we lose both the trust of the public and of our key (government and commercial) stakeholders.
- We are developing contingency plans to address these risks and will discuss these in more detail at the meeting on 17 October.

b) Back Office Transformation Programme

Background

- The Post Office is transforming its back office systems as part of prioritised IT investment at all levels in the business.
 - Our back office systems handle £60 billion a year of financial transactions for our clients and customers
 - They enable us to trade and run our business effectively – running the supply chain operation, settling with clients, paying our agents and employees and reporting financially and operationally
- The current main platform for back office systems, POL SAP, is an ageing system dating back to 2003 and no longer supported by our support vendors Fujitsu and Accenture.
- Through transforming our back office, we will be able to run the business more efficiently, as well as develop vital new capabilities which will provide better commercial insights to help us improve products and services.

Progress to date

- The Back Office Transformation Programme, which started last year, is responsible for migrating all our financial processes off POL SAP and onto the Core Finance System (CFS), and for implementing a new IT system – Cash Web Community (CWC) – within the cash centres which form part of our Supply Chain.
 - Parts of the programme are now complete and we are now making the changes needed to build to 'go live' on the migration of all financial processes on POL SAP to CFS, along with implementing CWC within all our cash centres (apart from Belfast where changes have already been made).
 - The go-live date has slipped and we have not yet finalised a new date.
 - The earliest possible option is pre-Christmas but it may be that we will have to go into the New Year.
 - We are in the process of building contingency plans.
 - Some of the ways of working benefits will be delivered in this phase and some will require further work – for example, we are expecting to reduce manual billing interventions by circa 50%.
- We have a 'safety first' approach to 'go live' and there is significant testing and rehearsal involved. Throughout the programme, risks are being carefully identified and mitigated and there is comprehensive contingency planning.
 - Our Belfast cash centre has successfully implemented the new cash system (involving 80% of the functionality that we will be using in cash centres on the mainland). But contingency on the cash supply side includes the ability to 'roll-back' within one or two days of the cutover and, beyond that, a contingency system which can be implemented to ensure that the network is adequately funded.
 - When the vital transformation of our back office systems is complete the changes made will increase automation, removing the need for manual workarounds. They will improve our reporting, controls and decision making through single source data, as well as providing better employee and user experience and engagement with customers and suppliers
 - Simplification and user-friendly training will also increase understanding of end to end processes, so people can work together more effectively to drive continuous improvement
- The transformation underpins our North Star ambitions: making our business simpler to run and providing much enhanced commercial insight that will help drive decision making for achieving our key market ambitions as we grow our network and modernise our products and services.

c) Cabinet Paper

- In conversation with Tom Cooper (UKGI non-executive Board member), Alex Chisholm, floated the idea of some form of cross-government communication to try to kick start some reflection across Departments about the role Post Office does and, critically, could in future play in helping HMG as a whole to:
 - further stimulate the transformation the delivery of public services (by, for instance, simplifying existing processes, e.g. digital identity solutions for regulatory purposes including know-your-customer regulations); and
 - contribute to the achievement of Government goals (in policy terms, for instance in helping to meet the challenges of financial exclusion).
- Positioning ourselves as a partner to Government, rather than appearing simply to be seeking preferential treatment in the award of contracts to give our Postmasters more transactions to perform on a piecemeal basis, could attract renewed interest in our organisation. The turnaround in our financial performance, while simultaneously and dramatically reducing the need for public subsidy, is eye catching in and of itself.
- The objective of the paper would be to shine a spotlight on our successful, and deepening, transformation, and to set out our stall as a confident organisation making a positive offer of mutually beneficial collaboration to HMG. From the perspective of Government Departments, there are powerful arguments to be made for partnering with the Post Office:
 - our shared public service ethos;
 - status as an HMG asset/investment;
 - traditional strength in network reach;
 - network expansion, through NNL and Payzone;
 - existing systems/infrastructure which already supports delivery of SGEIs, and which can be flexed further;
 - market leader in Verify;
 - new capabilities in banking, identity and digital.
- We are able to draw on existing examples, including POCA and the Banking Framework, to support our case, but our main goal would be to highlight areas in which further collaboration would likely make public policy and commercial sense, e.g. POCA successor, support to Universal Credit, Pensions Dashboard, a raft of Home Office Identity requirements including passports and post Brexit status, individual voter registration for Electoral Commission, and so on. The ambition of the paper ought to be to stimulate further thought and discussions in Government Departments, to generate ideas which they can then work with BEIS and Post Office to flesh out.
- Following recent changes at BEIS/UKGI, this work will be taken forward with BEIS and Post Office leading, and UKGI providing some additional ideas and support. A tri-partite meeting will take place on 5 September at official level, to ensure that all participants are aligned in terms of the purpose and scope of the paper, and to begin a discussion about the likely audience (on the assumption that full Cabinet might be over-ambitious), content, and timing. As we continue to canvass ideas and generate early drafts, we will engage colleagues from across the business, and work closely with GE to ensure strategic alignment and support.

d) Industrial relations

- a)** Relations with both the CWU and Unite are stable and things are relatively quiet at the moment but we can expect them to active around the Taylor review, pay negotiations, pensions, and the retail strategy. Since separation from the Royal Mail in 2012, the Post Office has remained committed to working in partnership with our trade unions, and relations with both CWU and Unite are broadly positive. Our customers, colleagues, and the 50,000 people who work in our branches across the UK come first at all times.
- b)** The CWU have asked Post Office to consider replicating the pensions agreement reached with Royal Mail to implement a new 'Collective Defined Contribution' pension scheme in PO. Talks are in their early stages and are on-going but it is worthy of note that this is likely to be CWU number one priority for 18/19. Unite are also supportive of the CWU about this proposal.
- c)** No pay agreement currently reached with CWU. The anniversary for the pay award was April 1st. Talks are on-going and have so far been constructive. If we fail to make progress with CWU on negotiations over pay and pensions, then it is possible that CWU will compound both issues and ballot for industrial action.

e) Topical Issues**Wishaw Post Office**

- Earlier this month, Marion Fellows MP wrote to the Postal Services Minister to complain about the temporary closure of Wishaw Post Office. We have worked closely with our colleagues at UKGI to help draft a response to go from the Minister, but she may still ask for an update:
- Wishaw Post Office was temporarily closed due to a large deficit being identified at the branch following an audit of their Post Office accounts.
- Where unfortunate circumstances like those at Wishaw Post Office arise, we will attempt to appoint a Temporary Operator to take over and resume services, normally at the existing site.
- Post Office will invite bids from a number of potential temporary operators. This is not a reflection of general viability issues with Post Office offers; it is normal commercial practice to seek more than one bidder to provide temporary services to ensure the best terms are agreed.
- However these arrangements are exceptional because the Temporary Operator is not just negotiating with Post Office for the temporary contract but will also need to separately agree arrangements with the current owner of the premises (most often the Postmaster that may have been suspended for example).
- The difficulty can arise where the Temporary Operator is unable to agree reasonable terms with the owner of the premises, as happened in this instance.
- This issue has now been resolved and acceptable terms agreed with the Temporary Operator (services re-commenced on 17th August)
- We are also looking at our processes internally, to work out what else can be done to support the supply of temporary postmasters.

Members Lobby Post Office

- We are aware that the previous Minister was approached by a number of MPs about our plans to change services in the Palace of Westminster
- As a result, when the House returns, it is likely that Kelly Tollhurst may also receive a number of queries.
- There are currently 3 Post Office counters in the Palace of Westminster – Central Lobby, Members Lobby and Portcullis House.
- This is a very costly operation for Post Office and we plan to close the Members Lobby counter later this year. Transaction levels are very small and 98% of the work is Royal Mail related, which a dedicated Royal Mail team will continue to service.

Annex A - Biography**Kelly Tolhurst****Constituency:** Rochester and Strood**Majority:** 9,850**Party:** Conservative**Position:** Parliamentary Under Secretary of State
Department for Business, Energy and Industrial Strategy**Background**

In 2014 Tolhurst was selected in an open postal primary, to contest the seat of Rochester and Strood for the by-election triggered by Mark Reckless' resignation from the party (in order to stand for UKIP). She was selected with just under a month to go before the by-election. She was unable to defeat Reckless, losing by 2,920 votes, although this was a better defeat than the polls had expected.

In January 2015 she was selected again, with no other candidates coming forward. She then won with a safe majority of 7,133 (which she increased to 9,850 at the 2017 General Election). David Cameron said that his sweetest moment of the election was seeing her win the seat back for the party.

She has lived in the local area her whole life, and her father was a local boat builder. Before becoming a parliamentarian she ran a marine survey business. She was a councillor on Medway Council from 2011 to 2018.

Political career

She announced her support for Theresa May to become the next Conservative Party Leader and Prime Minister in 2016.

Kelly Tolhurst was appointed PPS to Priti Patel as Secretary of State for International Development in 2016 and later went on to be the PPS to Greg Clark as Secretary of State for Business, Energy and Industrial Strategy from 2017-18. She also had a stint on the Business Select Committee from 2016-2017. In January 2018 she was promoted to become an Assistant Government Whip.

On the issue of Brexit, at the time of the vote, the Minister wrote an article saying she was genuinely conflicted as to how to vote. However, ultimately she decided to vote remain, saying: *"Having listened to the debate, looked at the facts, and spoken to prominent campaigners on both sides, I have now made my own decision that I will be voting to remain on the 23rd June. I believe that the risks to my country will be greater if we leave than if we remain part of the EU at this point in time."*

Post Office activity

In February 2017 she criticised the decision by the Royal Bank of Scotland (RBS) not to review the closure of Rochester High Street's NatWest bank branch: "Community fears are founded on the basis that the rate of closures on the high street will leave local businesses and vulnerable residents with reduced banking access, with the Post Office unable to cope with the demand of a rapidly growing town." She also tabled written questions on support for high street banking.

In December 2017, Kelly visited Strood Post Office, as part of our Christmas visits programme. She tweeted positively about her visit.

Rochester and Strood Constituency Post Office Network

- 17 open Post Office branches
- 14 branches have been modernised

- 3 Main branches, 11 local branches and 3 traditional
- 9 Urban and 8 Rural (1 Community status branch – High Halstow)
- Over 500 additional opening hours each week as a result of Network Transformation
- 9 branches are open on Sundays.
- At Christmas, Kelly visited Strood Post Office to thank the staff for their hard work. This visit was a great success.
- Most recently, in April, we opened Wainscott Road Post Office in her constituency. We will be inviting to do another Christmas visit this year, in her official Ministerial capacity.

Branch Name	Postcode	Type	Modernised	Sunday Open	Additional Hours	Location Type
Rochester	ME1 1JT	MAIN	Yes		4.5	Urban
Horsted	ME1 2TG	Local	Yes	Yes	71	Urban
Maidstone Road	ME1 3DT	Local	Yes	Yes	58.5	Urban
Lower Halling	ME2 1BS	Local	Yes		12	Rural
Cuxton	ME2 1EY	Traditional				Rural
The Temple	ME2 2HB	Local	Yes	Yes	79.5	Urban
Bligh Way	ME2 2XG	Local	Yes	Yes	62	Urban
Wainscott Road	ME2 4LA	Local	Yes	Yes		Urban
Strood	ME2 4SL	MAIN	Yes		4	Urban
Isle Of Grain	ME3 0BJ	Local	Yes	Yes	74.5	Rural
Cliffe Woods	ME3 8HX	Local	Yes	Yes	57.5	Rural
High Halstow	ME3 8SN	Traditional				Rural
Hoo	ME3 9AH	Local	Yes	Yes	66.5	Rural
All Hallows	ME3 9QJ	Local	Yes	Yes	6.5	Rural
Lower Stoke	ME3 9RA	Traditional				Rural
Chatham	ME4 4JG	MAIN	Yes		1	Urban
Davis Estate	ME5 9UR	Local	Yes		17	Urban