

UK Government
InvestmentsDepartment for
Business, Energy
& Industrial Strategy

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Official Sensitive and Subject to Legal Privilege**Post Office Limited (POL): Update****Summary**

1. This is an update on Post Office Limited (POL), in advance of you meeting Tom Cooper (UKGI) who sits on the POL Board as the Shareholder's Representative.

Issues

2. Departure of Paula Vennells as CEO. Paula's departure from Post Office has been announced, as has her appointment as non-executive Chair at NHS Imperial Trust, and as a non-executive Director at the Cabinet Office. In the short term, a family illness means that Paula will be stepping back from day-to-day management of the Post Office as soon as an interim CEO has been appointed.
3. Interim CEO. POL want to appoint the current CFO Al Cameron as interim CEO, pending the recruitment of a permanent replacement. His appointment requires ministerial approval. POL have proposed the interim CEO receives the same base salary as current CEO, but not her bonus package. Al would also be eligible for a retention bonus of £50,000 in the event that he was not appointed on a permanent basis, and on the condition that he remain in post for six months after the new CEO starts. UKGI believe that this is appropriate given Al's unrivalled knowledge of the business and the clear risk that he would subsequently look to leave. This package also requires ministerial and CST approval. It is currently being considered by BEIS's SCS Review Panel and will then come to you for approval.
4. Recruitment of a permanent CEO. The recruitment process has begun and you will be kept informed throughout the process. We are working with POL and their headhunters, Russell Reynolds, to develop an appropriate reward package for the new CEO. This will be informed by relevant benchmarks, market intelligence gathered by Russell Reynolds, and the need to establish sufficient 'headroom' between the CEO salary and that of the executive team. We have emphasised to POL the importance of achieving a diverse range of candidates.
5. Litigation. POL are awaiting judgment in the first litigation trial, which focused on the contractual relationship between Post Office and its agents (the 'Common Issues' trial). This is expected imminently. The second trial, focusing on the Horizon IT system, is due to start on 11 March and we expect there to be media and parliamentary interest. We continue to work closely with POL to understand their



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contingency plans and the communications strategy. We will shortly be providing advice on this topic and can provide a full briefing if you would like.

6. Financial performance. POL continues to improve its financial performance, with trading profit forecast to reach £60m in 2018/19, up from £35m in 2017/18. This has primarily been achieved by reducing costs through an extensive (and publicly funded) modernisation programme and particularly by replacing more costly directly managed branches (DMBs) with franchised branches. While revenues have been largely flat, these should rise sharply in future once the updated Banking Framework is in place from January 2020. We expect target trading profit of £80-100m in 2019/20, rising further in subsequent years. POL's annual financial plan is currently being finalised, due to be agreed at the March Board.
7. Dividend policy. Rising profits brings the opportunity to eliminate POL's subsidy and the need to consider how best to share the gains between agents, employees and new investment. We want to explore the introduction of a dividend policy so that taxpayers can also share in higher profits.
8. Corporate restructuring. POL proposes to alter its corporate structure, to create a new holding company (HoldCo) and transfer ownership of its Financial Services business, Post Office Insurance and Payzone from POL to HoldCo. This would mean that the group would be compliant under FCA rules once its strategic initiatives in these areas are completed. We are working closely with POL to ensure that the Secretary of State will retain the same rights over the group as currently apply to POL. The project is also an ideal opportunity to put in place a dividend policy for POL that would apply when the current funding period finishes in March 2021.
9. Investment funding. HMG allocated POL £210m of investment funding for the period 2018-2021, of which they have so far drawn down £142m. While some projects have changed in scope and cost, the overall portfolio is on track to meet its budget. The DMB programme has been accelerated as it provides additional benefits, while Mails projects are on hold pending the outcome of negotiations with Royal Mail. UKGI has worked closely with POL to improve both its controls and reporting around its transformation spend, providing extra comfort over its expenditure.
10. IT migration. Post Office have successfully completed a migration of back office IT systems. This has reduced both risk and operating costs.
11. Retail Strategy. Post Office are working on a new Retail Strategy. It is likely that will include the introduction of a new retail format that offers only a limited service focused on parcel drop off and collection. This would be in addition to the existing network of branches that offer the full range of services. The strategy will also look for further opportunities to simplify and automate Post Office services and transactions. We will work closely with POL on this strategy and in particular on the implications for agents and consumers, as well as for financial performance.
12. Banking Framework. At the end of 2018, Post Office tabled a revised fee structure for the next three years of the Banking Framework beginning in January 2020. POL's



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proposals would lead to around a doubling in fee income, based on the current volume of transactions. Fees were historically under-priced and increases are required to ensure the long-term sustainability of banking services across the whole post office network. The banks are required to respond by the end of March and current indications are that they will agree to the proposals, subject to a few minor amendments.

13. Franchising of Directly Managed Branches. You have received separate advice on POL's franchising programme.