



Department for
Business, Energy
& Industrial Strategy

Tim Parker
Post Office Limited,
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London
EC2Y 9AQ

4 February 2019

Dear Tim,

Alex Chisholm
Permanent Secretary

1 Victoria Street
London
SW1H 0ET

T: GRO
E: permanentsecretary GRO

Our ref: AC/SL1080

STRATEGIC PRIORITIES FOR 2019/20

Congratulations on your re-appointment as Chair of the Post Office. I am grateful for your work to date in leading the Post Office, and I am pleased that we can continue to rely on your service and expertise until September 2022.

The Government recognises the considerable progress that Post Office has made over recent years, delivering two successive years of profit while continuing to maintain a network of more than 11,500 post office branches and meeting Government's national access criteria.

The Post Office remains vital to communities across the country and I recognise the greater role it now has in financial inclusion, providing access to cash and basic banking services. It is important that the Post Office builds on its recent progress to ensure it is successful and sustainable for the long term.

Following your reappointment as Chair to the Post Office, I want to clarify Government's expectations for the Post Office for the forthcoming year:

- 1. New CEO Appointment:** The Government is grateful for Paula's dedicated service to the Post Office, in particular as CEO since the split from Royal Mail. Once her move has been confirmed, one of your immediate priorities will be the appointment of a new CEO and ensuring a smooth transition. This is an important appointment and will require shareholder engagement throughout the process.
- 2. Promoting Opportunity and Diversity:** As you are aware, there is a deliberate and sustained commitment by Ministers to promote diversity on appointments to public bodies. We are absolutely committed to improving diversity on our respective boards, and recognise POL's progress in this area. Diversity is essential to make sure we have the right mix of skills, abilities and backgrounds represented. We will need to continue to work closely to promote a strong and diverse field of applicants on future appointments and improve the overall diversity of the Post Office board and across the

organisation. To that end, I look to you to ensure that Post Office champions equality, diversity and inclusion.

Overall, our perception is that the management changes and appointments that have been made in recent years have led to an improvement in the quality of the management team and have also improved the diversity of the senior management group. Given the forthcoming changes to the senior management team, I am conscious that a new appointment will change the mix of skills in the team and the appointment itself may lead to consequential changes. I believe this would be an opportune time to consider succession planning, both ahead of, and subsequent to a new chief executive being appointed. It is of continued importance to ensure a mix of skills and experience to equip the business to meet the challenges it faces now and in the future.

3. **Board Development:** We expect that POL fully complies with relevant aspects of the Governance Code. We welcome the current board review, and, in line with our policy in this area, expect that this will be an annual exercise, with independent input at least once every three years. We also expect director appraisals to be conducted on an annual basis and that we can input into Chair and CEO appraisals. Finally, POL will need to comply with the Corporate Governance Code's requirement for workforce engagement and we look forward to hearing about how you propose to do so.
4. **Investment Spend Controls:** We are very focused on the need for government funding to be used prudently and efficiently in accordance with the objectives of the three-year strategic plan, whilst recognising the need for some flexibility for a commercial business engaged in investment projects. I wrote to Paula Vennells recently to emphasise this point. Appropriate monitoring and reporting must be in place and I understand that the format of reporting is being finalised with UKGI officials.
5. **Company Restructuring:** We are supportive in principle of the Company's proposed restructuring and it is important that it also meets Government's requirements, including the completion of the framework document and updated articles as well as a structure that facilitates future dividend payments. I know that UKGI and BEIS officials are already working with the Post Office team to ensure our requirements are clear.
6. **Company Strategy and funding beyond 2021:** I am conscious that POL is facing a number of significant strategic challenges, both in relation to the changing conditions in the retail sector and the substantial changes to some of the Company's key business relationships. The company has significant positive opportunities as well: the continued restructuring of the network, improved IT and greater use of automation, the potential to expand the network following the Payzone acquisition and to co-operate more closely with the banks in the supply chain and ATMs. I believe that together these offer POL a major opportunity to improve its offer to customers and the efficiency of the business. We also have an objective that the Company should be financially self-supporting by the time the current funding period ends. To enable us to consider these issues and the policy options and other implications that could follow, I would like you to carry out the necessary strategic work, in conjunction with UKGI officials, for presentation to me and senior colleagues in BEIS.

7. **Litigation:** The ongoing litigation trials may have important financial, operational and reputational consequences for Post Office. As the Minister and I emphasised at the meeting we held with Paula and her team at the House of Commons in October, Government needs to be kept fully apprised of developments, ahead of significant decisions being taken.
8. **Agent Pay:** I know that you are looking at revisions to Agent Pay, in part as a consequence of the renegotiation of the Banking Framework. The structure of remuneration should ensure that being a postmaster is an attractive proposition, thereby safeguarding the sustainability of the network. We ask the Company to keep us informed as that work progresses.
9. **DMB Franchising Programme:** Government have been supportive of the franchising programme and the contribution it has made to the sustainability of the Post Office. However, it is clear from feedback from MPs and other stakeholders that closures are highly sensitive and often negatively received by the public. We want to work with you to develop a more effective communications and engagement strategy to better promote the benefits to consumers, taxpayers and the Post Office network. We would also welcome closer collaboration on the timing of future announcements.
10. **Post Office Card Account ('POCA'):** We would like to ensure that there is a robust plan developed in partnership with DWP to manage the transition from POCA, including the resolution of legacy issues.

I would welcome an opportunity to meet with you and POL management to discuss the contents of this letter. I also propose that you meet with UKGI and BEIS at six-monthly intervals for a formal shareholder meeting, which I hope we would both find useful.

Karl Rogers

GRO

Alex Chisholm

