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Department for
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& Industrial Strategy

Meeting with Nick Read, CEO of POL

1300-1330, Wednesday 22nd January 2019
tbc

External attendees:

Nick Read, CEO, Post Office Limited (POL)

Internal attendees:

Kelly Tolhurst, Minister for Small Business, Consumers and Corporate Responsibility
Jessica Tysoe, Private Secretary

Purpose of meeting and Handling:

Following an introductory meeting between yourself and Nick Read on 17th October 2018, you agreed to have regular follow-up meetings. This meeting will have three objectives:

1. To thank Nick for his successful handling of settlement talks on the GLO proceedings and for working so closely with UKGI and BEIS officials. You may also wish to discuss outstanding issues, particularly the on-going need to strengthen POL's relationship with postmasters and ensure they are better supported;
2. To hear Nick's reflections and gain an update on the progress on POL's Purpose, Strategy and Growth (PSG) review, along with the next steps of their Five-Year Plan and need for this to dovetail with BEIS's long term vision work; and
3. For you to emphasise that, in order to make a robust and persuasive Spending Review case for a post 2021 subsidy, we require POL to provide us with their best available evidence to support their expected funding request.

Agenda:

No	Item	Time
1.	Update on the Litigation and Outstanding Issues	1300-1310
2.	Update on the Purpose Strategy and Growth (PSG) Review and POL's Five-Year Plan	1310-1320
3.	Spending Review Approach	1320-1330

Points to make:

1. Update on the Litigation and Outstanding Issues

- Say that you are pleased that on 11 December the Post Office and Claimants reached a comprehensive resolution to the litigation following several days of

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respectful, challenging and ultimately successful mediation, culminating in POL's agreement to a settlement.

- Thank Nick, and by extension POL for the handling of the mediation talks the way in which POL entered these with good faith to settle the proceedings.
- However, as there are several outstanding issues, you may want to make the following points/ask questions:
 - Emphasise that the Government values the delivery of all elements of settlement, in particular strengthening the relationship between POL and its postmasters.
 - That you are aware that, despite the settlement, POL is still potentially exposed to claims from i) the cohort of convicted claimants, and ii) other postmasters who were not part of the GLO. **Ask Nick how POL intend to handle this and what preparations they have put in place.**
 - That you are aware that a review of the convicted claimants is being conducted by the Criminal Courts Review Commission (CCRC). **Emphasise the importance of keeping Government up to date on the progress of this.**
 - Make Nick aware that you are receiving increasing volumes of correspondence in response to the litigation, including a recent letter from Alan Bates of the Justice for Subpostmasters Alliance requesting the Government pay the costs incurred to date by the claimant group.

2. Update on the Purpose Strategy and Growth (PSG) Review and POL's Five-Year Plan

- Nick Read has brought in McKinsey to work on POL's 5YP and 'Purpose, Strategy and Growth' (PSG), two strategic pieces aimed at setting a new vision for the company and make strategic investment choices ('big bets').
- BEIS's policy team and UKGI expect to see the draft 5YP following the January POL Board meeting (and a further iteration in February) with the aim of feeding into it ahead of it being agreed at the Board meeting on 24th March.
- Note that you are aware McKinsey's review of POL's operation is coming to an end and that senior officials are meeting with Nick on 30 January to discuss next steps. **Seek Nick's immediate reflections on the progress of the PSG review and ask him whether there are any updates on the review's 'Big Bets' that he would like to share and/or discuss with you.**
- Emphasise that you are particularly interested in PSG work on workplace culture and the relationship between POL and postmasters. You may want to raise the following:
 - While McKinsey's organisational health survey is a positive step forward, you are aware the results have been poor, so it will be crucial in the coming year for POL to address the shortcomings identified.

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- Encourage Nick to roll out the same survey to postmasters, as there is currently very little evidence on a postmaster's work life, beyond last year's NFSP survey which found that over 20% of postmasters were set to hand in their keys in the next 12 months. This could be a useful learning opportunity as part of improving the relationship with postmasters. Presumably NFSP may run the same survey again soon.
- Culture and the postmaster relationship were central to the litigation and whilst it has been settled there is still a long way to go to "reset" the relationship. **Ask Nick what lessons POL has learnt from the process and how they are progressing with their commitments from the settlement agreement.**
- Explain that you are aware that Nick has committed to engaging postmasters around culture in a different way. **Ask Nick how he is conducting this and what he has found out so far, emphasising the link between the litigation settlement agreement.**
- Emphasise the need to ensure that POL's PSG and 5YP work dovetails with the long-term vision work that BEIS policy are undertaking:
- This is particularly important for the role and definition of a future social purpose that should reflect the social value that postmasters provide in local communities and key cross-government strategies such as loneliness and net zero.
- Also emphasise the significance of the Post Office's role in supporting HMT's access to cash agenda and the synergies with POL's growth plans in the finance and cash market.

3. Spending Review Approach and Subsidy

- Please note that following a recent official lead discussion with CFO Al Cameron, we have noted the following points in regard to POL funding request for a post 2021 subsidy bid:
 - POL is likely to request that the subsidy continues at the current payment of £50m p.a. level or slightly below. This is below the current cost of providing the loss-making network (est. at £73.7m). Whilst this is somewhat disappointing, it is not unexpected given that just under 50% (5392 of 11478) of the overall network (excluding 193 DMBs) are uncommercial. On this basis we can see a case for a continued subsidy, particularly to ensure continued access to SGEIs in rural and remote location for vulnerable customers as well as SMEs. However, we will need POL's best available evidence to be able to make a robust case to HMT, who will be expected a zero-case. **Emphasise that POL will need to provide us with timely and robust evidence including on SGEI regional and demographic demand. We are grateful for the material they have provided already;**
 - Obtaining the relevant State Aid approval and getting the final Funding Agreement and updated Working Capital Facility (WCF) in place requires careful sequencing, given the potential for the spending review to be pushed back to the Autumn.

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- The WCF needs to take place by the end of 2020 so that POL's accounts can be signed off as a going concern for at least the next 12 months from the point of signing.
- **Emphasise that we are determined to avoid the problems at the time of the last Funding Agreement and officials from UKGI, BEIS policy, finance, legal and State Aid teams have developed a plan to ensure this.**
- [If needed:] Say that you are aware that POL have indicated that they will once again request that they are allowed to borrow for investment, either from Government or private markets. **Explain that while we have sympathy from a commercial perspective, we think it will be extremely difficult to persuade HMT.**
- Finally, the draft Framework Document, which has been cleared by the Perm Sec and will be submitted shortly for ministerial review, includes options for developing a dividend policy. However, POL do not believe a dividend will be payable to Government in the next funding period, due to the Company's ongoing investment needs. **Consider encouraging Nick to continue engaging officials on options for a dividend.**

Other Live Issues (if raised):

British Gas and Post Office

- Since January 2020 the Post Office and Payzone networks have become exclusive bill payments provider for British Gas.
- While the vast majority of transactions have been handled successfully, there are a small number of customers that have not been able to transact at their Payzone or Post Office retailer. The Post Office is working to rapidly address those issues.
- Additionally, some stakeholders have raised issues with the coverage of our network in comparison to the incumbent supplier, PayPoint. While it is true that POL/Payzone have fewer outlets than PayPoint, POL suggest that the overall geographic coverage is superior. In areas where customers are travelling further than they would rather, POL are also prioritising installations to those areas. POL have actively been responding to MPs expressing constituents' concerns.

POca

- The contract for the Post Office Card Account (POca) will come to an end on 30 November 2021.
- POL believe that DWP's plans for POca will have significant negative impacts on both customers and postmasters and have informed us that they will start briefing more widely about the implications in the next few months.
- It is highly likely that postmasters and stakeholders will react negatively at services being withdrawn from the Post Office network.
- BEIS officials have been in discussion with DWP counterparts to make sure they are aware of these risks, ahead of their planned procurement for POca's replacement (which is now due to go live in March 2021).

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Verify / Digital ID

- The Post Office is one of largest providers of identity verification through the Government's "Verify" service (a secure way for people to establish their identity online and thereby access government services). Verify is a growing business segment for POL, providing £10m of revenue in 2017/18.
- Cabinet Office have asked POL to pay a higher fee to Digidentity to stop them making losses and potentially leaving the digital identity market. Requiring POL to pay a higher fee turns a profit into a loss for the Post Office.
- A further meeting to discuss this is likely to be set up between POL and John Manzoni later this month or in February.
- In the meantime, Digidentity is threatening to stop accepting new registrations on POL's behalf in the next few weeks, which, according to POL, is a breach of contract.
- We believe the key to resolving this issue is for HMG to be clear with POL about its future ambitions and how participants in Verify could benefit as this would enable POL to make a commercial decision to continue to invest in the business. Our views have been communicated to Cabinet Office.

Media handling and social media:

N/A