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To Baroness Neville-Rolfe
From Annette Rusling, ShEx **GRO**
Date 22 January 2016

Meeting with Tim Parker, Post Office Chair
0900-0930 Tuesday 26th January

Purpose

- The meeting is an opportunity for Tim Parker, Chair of Post Office Limited (POL), to update you on the progress of his review into legal challenges relating to the Horizon IT system and also to discuss his impressions of the business a few months into his Chairmanship.

Attendees

- Tim Parker
- Laura Thompson, ShEx.

Our objective

- To hear Mr Parker's reflections the business following his first few months as Chair
- To discuss the progress made in his investigations relating to the Horizon IT system
- To discuss the restatement of last year's account following a provisioning error

His objective

- As above, plus Mr Parker may want to outline POL's recent agreement on access to banking services.

Issues

- After Mr Parker met the Secretary of State in November (meeting note in Annex A), the Secretary of State asked officials to examine potential future ownership options for Post Office Limited.
- Mr Parker does not yet know about this work - it is appropriate that Government, as Shareholder, first clarifies its position before engaging with POL. However, you should still take this opportunity to hear Mr Parker's view of the future direction of the business, having been in post since October.

CC list: Private Offices, Spads, ShEx POL Team, Comms

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AGENDA FOR MEETING

I. MAIN POINTS FOR DISCUSSION

Review of Post Office's Horizon IT system

- You asked Mr Parker to undertake a review of Post Office's Horizon IT system, specifically, the complaints received about potential errors in the system, and Post Office's handling of those claims.
- As previously advised, he appointed a QC (Jonathan Swift, former First Treasury Counsel) to assist him in this review. He has held a number of meetings including with Lord (James) Arbuthnot and with the independent investigators Second Sight.
- Mr Parker is currently in the process of finalising this work, and we expect he will want to explain his initial thoughts on what he has found and what further steps he wants to take. We suggest you discuss with him whether and how the findings of his work might be made public. Andrew Bridgen MP and Oliver Letwin MP have expressed interest in hearing the outcome of his review.

You should also note that:

- The Criminal Cases Review Commission (CCRC) continue their investigations into a small number of applications (c.20) and Post Office continue to provide the CCRC with all information requested. There is still no indication that the CCRC will complete their investigations any time soon.
- Further to the November press notice that the Justice for Subpostmasters Alliance (JFSA) are preparing a group action against Post Office on this matter, Post Office had some limited correspondence with the legal firm appointed by the JFSA, Freeths Solicitors, but are yet to receive any letter before action.

Provision/ accounts restatement

- POL has now completed its review of the error and will be issuing their interim accounts (with restated prior year figures) this coming week (w/c 25 January). POL has confirmed the magnitude of the error (£87m) but that the estimated cost of the overall Network Change Programme remains at £430m and that neither the company nor subpostmasters have suffered any losses.
- Mr Parker is aware that you have written to the Remuneration Committee to get their views. You may wish to ask him what his views are on the matter, including whether this is an isolated incident or a symptom of wider issues in the business, and how the business moves forward.

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Banking Framework

- Mr Parker may wish to update you on the progress of POL agreeing, through the British Banking Association and leading high street banks, a standardised service that can be offered to all high street bank customers for common transactions on a more consistent basis.
- High Street bank accounts can already be accessed at Post Office branches in one form or other. However the level of access varies between banks, and systems were not homogenous.
- POL has agreed in principle a new framework which addresses these issues and will be signed shortly. It terminated (with notice) the current arrangements with all banks on 23 December.
- This is a good news for POL (it is more a profitable and efficient arrangement), and provides customers with a more uniform service at a time when banks branches are retrenching. This could offer a “good news” story and we are liaising with POL and BIS comms.

Mr Parkers reflection on the business

- Mr Parker joined the business on the 1st October. Since that point he has held three Board meetings, and appointed two new non-executives. The most recent Board meeting took place on Friday 22 January, which was the first with the two new NEDs (Ken McCall and Carla Stent).
- His initial views of the businesses are forming (see Annex A) and he will discuss with you his further reflections
- You may wish to ask him about what he sees as the future direction of the business, and how Government can assist

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II. GENERAL BACKGROUND ON CURRENT PERFORMANCE

- Although YTD revenue is £4m (0.6%) behind budget, operating profit is £3.1m (4.8%) ahead of expectations on strong cost performance.
- Revenue impacted by weaker than expected performance in Travel Insurance, withdrawal of the NS&I contract and lower supply chain income.
- Costs are ahead of budget, driven by lower subpostmasters costs which have been partially offset by higher staff and non-staff costs.
- POL sees trading risks and opportunities in the 4th Quarter; currently income risks are offset by lower expenditure.
- Management expects to be able to meet budget operating profit in the year to March 2016. This is reassuring although below budget revenue remains a concern.

OFFICIAL - SENSITIVE**Annex A****Readout of Secretary of State Meeting with Tim Parker****SoS meeting with Tim Parker, Chair, Post Office Limited, 24 November 2015**

SoS opened by thanking TP for taking on the job as POL Chair. He then asked TP to set out the key challenges facing PO.

TP explained that the ‘public sector inheritance’ is still a big factor – POL is a young company with many of the characteristics of a public agency. POL has a high cost structure and while Crown branches are profitable there is a significant tranche of branches that have barely any footfall/revenue.

Furthermore, POL is facing increasing competition in the mails market, and more and more mail is heading online. There is also increasing competition in the financial services sector, in which POL has interests.

POL is slowly trying to wean itself of Govt subsidy, TP added, and there have been “steady improvements all round”. He does, however, worry that POL may “hit a buffer revenue-wise” in the medium term (2-3 years), and noted the challenge of keeping 11,500 branches open in this context.

Further challenges were that POL revenues driven by Govt services continue to dwindle; this makes sense to him, it seems an anachronism that many benefits are distributed by POL and not digitally.

TP said his principle concern about the future of POL is its contractual relationship with Royal Mail, which is up for renegotiation in the next couple of years.

The SoS asked if POL could move in to other markets.

“Not really, no”, TP replied. He reiterated that some POL branches are very profitable and could be spun out as part of a broader retail business. Where POL branches are “last shop in town”, he feels they would be better served by offering a range of public services (eg NHS outreach) under one roof.

The problem with trying to get a private operator to absorb Crown branches is that this cohort of branches are highly unionised and the staff benefit from higher wages and superior benefits than the employees of, say, WHSmith (the kind of business you would expect could be interested in POL).

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Ultimately, however, this kind of change is TP's vision, but it is a question of appetite among politicians and POL's management – he reiterated that there would be real handling challenges to any privatisation push on POL.

SoS said it was better to take these fights on at the beginning of a Parliament rather than when a Govt had lost momentum. He asked TP what issues would need to be resolved in order to make POL really attractive to the private sector.

TP repeated that it is the Royal Mail relationship that must be resolved. He wondered if Royal Mail itself might want to own POL eventually.

SoS asked if the POL Exec Team is of the necessary calibre to explore radical options for POL.

TP equivocated on this, but then backed his team.

In AOBs, TP said Paula Vennels (POL CEO) deserved a pay rise – SoS agreed but noted the handling difficulties.

TP also asked that POL not be included as one of the agencies that are bound by the exit payment rules that will come in via the Enterprise Bill.

SoS acknowledged TP had a “good point” but made no firm commitment.

Closing, SoS thanked TP for his ideas and said the Govt should explore reform options for POL.