

OFFICIAL SENSITIVE - COMMERCIAL

To: Baroness Neville-Rolfe
From: Laura Thompson, UKGI GRO
Date: 18 July 2016
Subject: Meeting with Tim Parker (Chair, Post Office Limited)
Tuesday 19 July 17.00-17.30

Meeting purpose: This is your regular (six-monthly) meeting with Tim Parker to discuss Post Office. You last met him on 27 April, to discuss his work on Horizon.

Meeting attendees

- Tim Parker, Chair of Post Office Limited
- Laura Thompson from UKGI will also attend.

Likely areas of discussion (key points)

1. The situation on **industrial relations** is developing: the Communication Workers' Union (CWU) will imminently announce formally their intention to ballot for industrial action, and are planning this week a nationwide campaign calling on Government to support the Post Office, which they say is "in crisis". Mr Parker will give the latest update.
2. Mr Parker will update you the latest developments on **the Horizon matter**, including legal advice taken by the business regarding the current group legal action.
3. Mr Parker has written you to (attached) requesting an exemption for POL from the **public sector exit payments cap**, due to come into force later this year. We have been very clear with POL on the Government's position on exit payments; however we consider that there could be a case to be made here and we recommend you take further advice, after hearing Mr Parker's views.
4. POL's Board held their **strategy** awayday at the end of June, and we suggest you ask Mr Parker to update you on the longer-term plans for the business. This is likely to touch on future funding – we recommend you stress to Mr Parker that funding is very tight indeed, and Departments may need to find further savings. POL will need to make a very compelling case for additional funding, should the Board decide they need to do so, and it will be vital to work closely with UKGI officials on this.
5. Finally, Mr Parker may ask you for an update on the **Government's plans and policies** as a result of the Ministerial reshuffle and changes to Departments last week.

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Annexes:

- A. Additional background on key issues**
- B. Tim Parker biography**
- C. Letter from Tim Parker on exit payments cap**

Copied to: Secretary of State, SpAds, Permanent Secretary, Mark Russell, Justin Manson, UKGI POL team, Claire French, Gareth Evans, Tasnim Sadek

Advice	Finance	SpAds	Press	Legal	Analysts
Received From:	N/A	In parallel	N/A	N/A	N/A
Devolution Issues	N/A		Equality Analysis	N/A	

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ANNEX A: Additional background on key issues**1. Industrial relations**

- The Communication Workers' Union (CWU) have stated they will shortly be calling for a ballot on Post Office's programme of business reform. POL believes that notice of this ballot will be given to POL this week. The exact motion will only become known when submitted but is expected to cover the three main contentious issues – supply chain, Crowns and pensions.
- This week the CWU have started a "People's Post" bus campaign, with a bus travelling to various sites across the UK and ending this Friday (22 July) at the BEIS office where they plan to present a giant signed postcard. Further advice will follow on this and we have notified building security.
- The other Post Office union, Unite (which represents managers), is very close to agreement on a new pay deal (1.9%) and on the terms of exit for its members for current business changes. While Unite still opposes pension changes, their acceptance of the supply chain changes will mean that an extra 190 managerial staff should be available to help deliver cash to the network, which would further mitigate against any implications of strike action if one is called.
- Crowns: On 6 July POL announced it would seek franchise partners for a further 20 branches, and continues to make progress on plans to franchise/host a further c.60 branches announced earlier in the year.
- Pensions: POL has completed its consultation with staff and unions on the proposal to close the defined benefit scheme. Mr Parker may be critical of Cabinet Office and HMT (they have insisted on a right to approve changes) but officials have worked hard to secure their consent - - HMT's was received last week, and final approval from Cabinet Office is expected shortly. The Trustee has not yet accepted POL's proposal, and will consider further in September. There was some press pick-up on the proposed changes over the weekend.
- Supply Chain: POL's consultation with staff and unions on the proposed supply chain changes (closure of 9 facilities and loss of 600 jobs) is ongoing. An agreement is imminent with Unite; if the CWU do move to formal dispute, then POL may choose to close the consultation early which could help get the timetable for the changes back on track.

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2. Horizon

- We advised when we saw you recently that POL were taking additional legal advice from a QC regarding the group civil litigation against Post Office, and the implications of this action on ongoing work regarding the Horizon matter.
- Mr Parker will give you an update on this matter and the implications for his review of the system.

3. Public sector exit payments cap

- Mr Parker has written to you (letter attached) setting out POL's case for an exemption from the public sector exit payments cap, which is likely to come into force in the autumn.
- POL consider that the £95k cap will make an already-difficult industrial relations landscape even more challenging and will severely affect POL's ability to transform the business and reduce headcount, in order to reduce their reliance on ongoing subsidy. Mr Parker proposes an exemption from the cap in order to both reduce the size of the business and implement changes to terms (such as the pension changes) to enable POL to live within the spirit of the cap in future.
- We have been clear with POL that the Government's policy is to put a stop to excessive exit payments within the public sector. They are realistic about their chances of securing an exemption. We do however consider that they have a case to make, perhaps for some kind of time-limited arrangement on the basis of achieving clear deliverables in transforming the business.
- You do not need to decide on this now: we will prepare full advice for you on the matter and the options available to you. For the meeting, we recommend you listen to Mr Parker's views, and explain that while the policy position is clear, you will give careful consideration to the case they are making.

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4. Strategy and funding

- POL and HMG will enter discussions about the post 2018 funding position later this year. POL has received c£2bn in funding between 2010 and 2018, being a mix of ongoing subsidy for the network, and investment to modernise and reduce costs (to ultimately reduce the funding burden on taxpayers).
- Expectations set during the previous funding round in 2013 was that, post 2018, POL would need funding of c£50-60m p.a. to fund the social aspects of its network. However, this was only an estimate, based on an ambitious business plan which included significant revenue growth (which has not materialised e.g. Government work has simply not come through, Financial Services is a very competitive environment, mails continues to decline).
- The POL Board recently discussed the likely future funding requirements, and they are likely to significantly exceed expectations.
- We have informed POL at all levels of the organisation that funding is very tight indeed, and that they must prioritise their requests
- Tim Parker views the next funding round as crucial to finishing the job of making POL truly sustainable (and therefore not requiring any subsidy beyond 2021), and will set out his high level rationale at the meeting
- You should reiterate the message that funding is very tight indeed, and that HMT are likely to be looking for savings in the autumn. Additional funding over and above what has been agreed will be extremely hard to come by. You should stress to Mr Parker that POL will need to make a very compelling case for additional funds, and ask him to encourage his team to work closely with UKGI officials.

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Annex B: Tim Parker biography

Tim joined the Board of Post Office Limited in October 2015. His career covers a wide range of retail companies. In 1996 he was appointed CEO of Clarkes shoes and after six years of reorganising the company and bringing it up to date with the latest designs, the profitability of the footwear company improved by 150% and record results were posted in 2002

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In 2002 he moved to Kwik-fit and backed by CVC national partners was able to complete a £340 million Management buy in from Ford. Operating profits increased by 250% in a two year period after major restructuring of the business.

In 2008 he spent a short time as the first deputy mayor of London working alongside Boris Johnson.

In late 2008 he became the non-executive chairman of Samsonite Corporation and by the beginning of 2009 also CEO. Despite being hit by global credit crisis which led to a sharp decline in profits, after investments in products and marketing and extensive restructuring, the company remerged stronger and achieved record results of \$250 million in 2011. Also in this year the company was listed on the Hong Kong stock exchange.

Previous meetings

- You met Mr Parker in **June 2015**, prior to confirming his appointment as Chair.
- Mr Parker met the previous Secretary of State in **November 2015** where they discussed his initial views of the business and opportunities for the future.
- You last met Mr Parker on **26 January 2016** where you discussed his initial views of the business, the two new Board appointments (Ken McCall and Carla Stent) and his work on reviewing the Horizon matter, and on **27 April 2016** where you received a further update on the Horizon matter.
- You have agreed to meet Mr Parker on a six-monthly basis in the future.