

Briefing for 1-2-1 with Tim Parker
12 January 2016

Potential Agenda

1. Paddington
2. Industrial Relations
3. NFSP
4. Board Agenda
5. Mails
6. Bol
7. L300
8. Sparrow
9. Visits to Flood affected Branches

1) Paddington (with Kevin)

See separate brief at end

2) Industrial Relations

Progress and timetable for 'Big Five' change activities

- Our 'Big Five' change activities are now all underway and on schedule as follows:
 - Pensions: Consultation on closing the defined benefit pension scheme to future accrual starts on 2nd February following extensive union consultation.
 - Paddington/Crown: Colleagues in affected Crown branches are being briefed on 19th January about our franchising plans. Unfortunately the CWU has already 'leaked' the meeting invitation and speculate that it will be about franchising and closures. We have deployed our leak strategy, issued Comms to all branches and will continue as planned.
 - Support Services transformation: This is on track – Dearne is a 'hotspot' and the union has a mandate for strike action following a ballot before Xmas.
 - Supply Chain: Our in-year savings activity is on track with the only sticking point being the proposed closure of Leeds depot, which the CWU is opposing and has held two local strikes over. We have amended our offer to staff (so they can take VR rather than be compelled to transfer to Sheffield) in response to colleague and union feedback. IRIS work continues and will not be briefed to colleagues until it is far more certain. We took unions through the strategic challenge on Supply Chain in September of last year and will continue to engage them.
 - Terms & Conditions (aka 'Crescent') – managing and reducing our cost base will play in to the pay negotiations coming up shortly (see note below).

Impending Pay Negotiations

- Existing pay deals expire for all managers in June, and for Crown CWU grades in March. The IR team is working with operational leads and Finance to develop our mandates and negotiating approaches for both. For reference, the previous managers' pay deal covered 4 years and was a combination of transformational cash payments and a consolidated pay rise of 3%. The most recent Crown CWU deal was a 1.9% consolidated pay rise.
- For reference, CPI inflation is 0.1% and RPI is at 1.1%. Public sector pay is capped at 1% and the retail sector is forecast to see c2% pay rises in 2016.

Issues with CWU and our IR Framework

- The CWU is ignoring important aspects of our agreed Collective Engagement & Industrial Relations Framework (CEIRF), notably the Dispute Resolution Procedure designed to avoid a rush to industrial action. The result was five separate strike ballots in the run-up Christmas, three of which (Crowns regarding Christmas Eve opening, Leeds Supply Chain depot regarding proposed closure and St Helens Call Centre also regarding proposed closure) results in strikes on Christmas Eve. These were well-handled with no loss of service at Leeds or St Helens and 87% of Crown branches open, with 48% of staff on strike (considerably less than the union has secured in previous strikes).
- We (PV) has written to Dave Ward (Gen Sec, CWU) making clear this is untenable and we are meeting Dave and Terry Pullinger (Andy's boss) in the next week or so. The objective is to secure a commitment to respect the agreement so it works as intended. If this is not forthcoming we retain the option of serving notice on it.

3) NFSP

Immediate Issues

- Tensions arose at the beginning of December as a result of George's presentation of the NFSP Annual Plan (required to enable the annual grant payments) and subsequent reluctance to agree to the suggested additional requirements
- This has resulted in NFSP threatening to withdraw from the Grant Agreement unless POL meets their demands of concessions on the agreement (membership levels, VAT) and various business initiatives (ATM fee reduction, cost recovery for conformance training) and requesting a £20m (£10m this year, £10m next) "stabilisation" payment to postmasters
- Our assessment is that George has convinced his EC he can achieve these demands and therefore boxed himself into very difficult position, albeit this has been couched with significant emotion from his EC around the wider relationship and challenges we are facing
- We have sought to resolve this in a cooperative manner (with an aspiration to help George thought this by being flexible on meeting some of his demands but not the £20m

payment) and without resorting to a confrontational approach in order to maintain our preferred position of a collaborative relationship with NFSP. This has included several conversations with George (including 121 with you) and culminated in a discussion with the NFSP EC on 11/1 (PV, NH,NB) however it is clear that this is very finely balanced and there is a risk that NFSP will withdraw – albeit they themselves recognise this would probably mean their organisation only survive for a further 12 to 18 months

- Should this arise they have advised they may challenge the NT programme around the removal of fixed remuneration and the contractual restrictions policy that prevent postmasters selling competing products in their branches. We believe we have a strong legal position to defend these aspects but it could result in significant stakeholder disruption.
- They are discussing this over the next 2 days and we expect to be advised when a decision has been made

Longer term

- We believe a collaborative relationship with a representative trade association is good for POL and remain committed to this being NFSP but in the event of this happening we would look to establish an alternative organisation e.g. Postmaster Consultative Council and/or work more closely with an existing organisation e.g. Association of Convenience Stores.
- We developed a high level view of the former during the Grant Agreement negotiation and our starting point would be to dust this off and detail thoroughly. We would attract membership to this by potentially utilising some of the funding already identified to support the NFSP grants and membership would be drawn from the same range of operator types we envisaged the NFSP representing. The role of this organisation would be to provide, through a combination of (e.g. quarterly) meetings and working groups:
 - a forum for discussion on Post Office issues
 - information related to Post Office business change
 - a platform for operator input into relevant aspects of business design – transaction, operation, sales, marketing

4) Board Agenda

Next week's Board meeting will include:

- A report on P9 performance – in summary:
 - Strong performance in mails at peak (but risks for Q4 emerging)
 - Recovery in some areas of FS driving performance beyond reforecast– notably home and life insurance; and credit card; alongside continued strength with Moneygram
 - Mortgages and savings struggling
 - Travel insurance remains challenging

- An update on the Mails Strategy:
 - This will include an update on the potential acquisition of P2G, which GE discussed yesterday and where work to assess whether this represents a worthwhile investment continues; and
 - Preparations for negotiations with RMG on the MDA.
- An Update on Supply Chain – which again was discussed by GE yesterday.
- An opportunity for the Board to input on discussions on the 2016/17 Budget and outlook for the 3YP, ahead of decisions later in the year; and more strategic discussions in March and June respectively

5) Bol

You are due to see Nick at 4.15 today for a substantive update, therefore may be premature to raise. However, in the meantime, Henk reports that discussions with the Bank continue on:

- a short term deal covering an underpin for savings; and POL deriving greater value from FRES; and
- the value of a 2-4 year run off period post 2023 as a contingency should a longer term deal not be available.

6) Sparrow

The latest update is:

- Yesterday, Tim Parker received the draft report into the adequacy of the Scheme's processes from Jonathan Swift QC. Though we have not had sight of the report, Jane MacLeod has a meeting with Tim this afternoon at 4pm, during which I would expect it to be discussed.
- There is no further news in respect of a potential legal action.
- The escalation of our complaint, in respect of the August Panorama Broadcast, was sent to BBC Editorial Complaints Unit last night.

7) L300

- We are getting our top 300 managers together in a new leadership forum: to create a drumbeat of communications and activity throughout the year.
- The aim is to drive leadership behaviour, empower and inspire colleagues and get them passionate about the detail of delivery: and critically to engage their teams in both the hard realities and the hearts and minds appeal of our change.
- First event takes place Jan 26: Paula keynote, business update, external speaker (Ellis Watson, CEO of DC Thomson, ex-Greyhound turnaround), sessions on customer, IT transformation, communications.

- Follow up is critical: there will be a clear leadership proposition (our 'covenant' with senior leaders) and materials (our transformation narrative, vision framework).

8) Visits to Flood Affected Branches

You may want to share some of your experience from Friday's visits. Your notes are attached.

Paddington – High level brief

1. Project Paddington concerns the potential to Franchise 31 Crown branches and to Host 44 within WHS stores to add to their current 108 Franchise branch estate.
2. Hosting is where the Crown continues to operate within a 3rd party retail premises with the benefits being a better retail pitch for considerably less rent and other property overheads.
3. The deal shape has been optimised; where Franchising is better financially for POL this has been chosen and the same goes for Hosting.
4. Should Franchise become a better alternative once we have entered into a Host agreement, there will be a clause within the contract allowing either WHS or another Franchise partner to operate the branch as a Franchise.
5. The third aspect of the deal is to introduce greater brand prominence in all Post Offices located within a WHS store (108 existing franchises and 75 new franchise / hosts), giving us 50:50 fascia branding. This is expected to both protect POL income following a move of branch and build brand awareness where this has been lost as part of past deals.
6. The GE signed off a negotiating mandate in September and we are operating well within this.
7. Both sides are ready to engage contract lawyers, and both negotiating teams believe they can get to a signed deal before the end of March which will be worth c.£3m in annual benefits to POL.
8. We need to advertise the franchise branches next week in order to hit a deal signature in March. Advertising them gives the wider market 28 days to respond, and then time for us to fairly assess any alternative applicants before March.
9. Advertising now means we must brief our unions this week and our staff in advance of the advert going live. The IR response to this is expected to be robust and this may include a ballot for industrial action once we move to formal staff and public consultation which is expected to be in April 2016. This is reflected in the IR Heatmap and I/A contingency plans are already in place.
10. If we do not advertise now, then we lose the chance to finalise a multi-branch contract before the end of the financial year. Time is of the essence for four reasons. These are:
 - a. The benefits at stake.
 - b. Some procurement law changes which come into effect in April.
 - c. Our Crown break-even objective at the end of this financial year; and
 - d. Co-ordination of the deal with WHSmith's half-year results in early April.
11. The changes in procurement law will affect multi-branch, large- scale, franchising deals like this one. If we delay signing the deal beyond March, the procurement will become much less flexible and would take an additional six months at least.
12. In our experience, WHSmith are the only national retail chain who can work with;
 - a. the low returns and large space requirements of franchised Crowns;
 - b. the need to provide high-street locations close to the vacated Crown;

- c. the risk of Crown staff transferring to them under TUPE; and
 - d. the public and political pressures which come during consultation
13. Although there will be delivery risks, this partnership is the best possible one for making significant changes to the Crown network.

Visits to Flood Affected Branches

Just a few quick reflections after the flood visits:

- Lesley McNulty (BAU regional Manager for 3000+ branches); v committed and has said she will review our crisis response procedures. We responded and continue to do so but not as well as we'd wish. I'd like you to encourage that review and best practice that should come from it. (I'm sure she'll raise this: we need a best practice regarding safes - many different models of course! - ie., what to do with them before potential flooding/after.)
- with banks closing branches - getting a flooded PO reopened is even more important, we should know which POs are now the 'banks' for their communities.
- Our own field teams are working long and hard: can we recognise some of the individuals who are going above and beyond?

Hebdon Bridge - flood damage

- MOD (!?) grade 1 safe took two and a half days to get into. (Involving a hammer and a stethoscope - I know - 'you could write a book'.)
- PM Satnam Singh working till 10/11pm every night with help from colleagues and townsfolk to clean a big PO (has a young family and had to miss seeing them over Christmas and since)
- Local butcher had deposited his entire Christmas meat takings on Christmas Eve but because of Leeds depot strike, they and the relevant paperwork were in the safe when the branch flooded on Boxing Day! Worried butcher, his Slaughter house needed paying etc etc - anyway when our MOD safe was finally opened courtesy of the hammer and stethoscope, whilst the money was ruined the paperwork was dried out and thanks to Satnam's persistence on behalf of his SME customer and another branch (Sowerby Bridge who remmed it in) and Chesterfield colleagues who were looking out for it, we avoided the butcher getting into difficulty (he was about to cancel a holiday!
- Part of RM building - they lost 12 vans in the floods

Hebdon Bridge - NT

- Hebdon Bridge is a fairly wealthy town and I'd be interested in understanding our views on the PM, how successful the branch is and how much more it could do.
- Satnam has (just) signed to convert. And we will be putting in the NT refurb. However, as the branch is high flood risk (he can't get insurance that covers flood damage), in my view we would be better supporting his request to keep the (beautiful) solid oak counters, have a qualified joiner fit a new top, make one of them DDA compliant, etc as we refurbish the branch. It is a listed building and I'm sure it would go down well in the town.
- If we don't, we'll get significant town opposition during the consultation, to removing better and infinitely nicer counters; ie., worth noting it will affect our reputation.
- My principle reason for supporting Satnam's request however, is that having seen the devastation just up the road in Mytholmroyd, where all the MDF counters will need to be

scrapped because they warped, buckled and disintegrated, keeping the flood-resistant oak (which needed no more than a clean!), is likely to be the best and most cost-effective long-term option.

Can you get this relooked at? And let me know?

Mytholmroyd

- Peter and Janet Brookes running a v small one counter PO, who clearly give good service to their community. The floods were above the ceiling level of the PO and they have lost all their stock (again no insurance claims possible) but with grit and determination are just getting on with it. The building next door collapsed and half was washed away. Peter is not completely well and you could see the strain; but his wife (Janet the PM) is a rock. They had to abandon their flat above the PO, in a boat on Boxing Day; and she left clutching the PO money in a satchel "I know were not supposed to ...but no looters were going to get the PO money" she said proudly.
- worked long hours and have just reopened but the few fixtures that are still standing need replacing
- could have opened earlier but having taken the money from the safe (they'd kept it upstairs in their flat anticipating the flood), they then closed the safe! - and it took a long time to re-open full of sludge!

Just a few hours in the life of Post Office limited!