

To Secretary of State
From Annette Rusling, ShEx Ext IRRELEVANT
Date 20 November 2015

Meeting with Tim Parker, Chair of Post Office Limited, 24th November 2015

Purpose

- This is an introductory meeting with Tim Parker, who took up the post of Chair of Post Office Limited (POL) on 1st October 2015. This is the first time you have met Mr Parker in this role. The objective is to understand Tim's first impressions of the business, its challenges, and his ideas on future direction.

Attendees

- Tim Parker (POL, Chair)
- Richard Callard (ShEx, HMG representative on POL board)

Topics likely to be raised by Tim

- POL's freedom to operate commercially
- Banking framework and negotiations with the major banks
- Apprenticeships

CC list

- Baroness Neville-Rolfe, Perm Sec, George Freeman, SpAds, Richard Callard (ShEx), ShEx POL team.

Annex A

Tim Parker biography

Annex B

YTD performance information

AGENDA FOR MEETING – NOTES ON LIKELY TOPICS RAISED

Likely subject	Points to make:
<p>Freedom for POL to operate commercially</p>	<ul style="list-style-type: none"> ● As a publicly owned business POL faces constraints that prevent it operating as a purely commercial enterprise. These include: <ul style="list-style-type: none"> ○ Public Procurement – POL is bound by public procurement legislation and must run open and fair competitions to tender for contracts. ○ Working Capital – POL has a £950m facility from HMT to ensure cash in the network. HMT require more notice of drawdown than a commercial lender. ○ External Borrowing – POL is permitted to borrow subject to shareholder approval. POL believes this places a constraint on the business (precedent indicates approval would be unlikely). ○ Remuneration/ appointment approvals – Tim may express frustration about the time it has taken recent appointment and remuneration processes to be cleared, including CEO and CFO 15/16 remuneration (which resulted in the CFO’s bonus being paid late) and approval of two Board appointments. ● Tim may also raise POL’s Remuneration and Nomination Committees powers to operate independently of government. Our advice is clear that, where appointments are made by ministers or approved by them, then they need to be involved at each stage in the process. <u>We recommend you encourage POL to engage with officials where they have concerns and reiterate that we expect POL to operate commercially but there are certain constraints around remuneration, procurement and borrowing that all government owned businesses have to adhere to.</u> ● Exit payments: The Enterprise Bill includes provisions for government to introduce a cap of £95,000 on public sector exit payments, with the exact detail to be set out in regulations. (Note this is HMT policy) ● POL are expected to be within the scope of these regulations. There are some public corporations which are likely to be exempt, and Tim may ask you whether POL can be included in those exemptions. ● POL are concerned that the rules may affect their ability to move quickly in making structural changes if necessary. We have advised POL that government expects all parts of the public sector to put these arrangements in place, even if they are not explicitly included in the regulations.
<p>Banking framework</p>	<ul style="list-style-type: none"> ● POL has been working with the BBA and leading High Street banks to develop a “standardised service” that can be offered

	<ul style="list-style-type: none"> • to all High Street bank customers for common transactions. • These services are already available for the majority of account holders, but not on a consistent basis across all banks. The standardised proposition has been agreed by the BBA, the banks and POL but commercial arrangements now need to be negotiated. • POL is finding it difficult to progress negotiations, particularly regarding a change in fee arrangements from variable-only costs to fixed-plus-variable costs (higher overall). While this change improves the economics for POL it is not clear why the banks would voluntarily sign up to pay a higher price. • For this “standardised service” to work / deliver an economic return, POL needs a majority of the banks to sign up. The banks are aware of this and POL considers that two of the larger banks are stalling on signing up to an agreement. POL also believes these banks are encouraging similarly slow progress among the other banks. • POL might raise the possibility of government exerting influence on the banks to make progress. This is difficult – these are commercial decisions being made by independent businesses. <u>It is not clear what Ministers can reasonably do apart from encouraging progress.</u>
<p>Apprenticeships</p>	<ul style="list-style-type: none"> • POL have been working on developing two new apprenticeship schemes. The first is for direct employees (e.g. those that work in POL's owned branches and its supply chain) while the second is for those that work in the agency network (e.g. sub-postmasters and their employees). POL is now waiting for HMG's response to its consultation on the apprenticeship levy before taking decisions on timings, structure of the schemes and numbers. • As a publicly owned business it is important for POL to take a lead on apprenticeships, and to set an example for other large employers. <u>We would recommend you encourage POL to continue making progress while also setting ambitious targets for a launch.</u> <p><i>Note: POL currently has c.6,700 direct employees, and it works with more than 10,000 sub-postmasters who in turn employ up to 30,000 people in their independent retail premises.</i></p>
<p>Spending Review</p>	<ul style="list-style-type: none"> • BIS submitted a bid to HMT in the SR for POL that reflected: (i) the legally committed contractual commitment we have to POL for the years 2016/17 and 2017/18 (i.e. £220m and £140m respectively); and (ii) an indicative funding requirement for subsequent years of between £50m and £60m • This indicative requirement was developed in 2013 in expectation of favourable market conditions, which did not

	<ul style="list-style-type: none">• materialise, and as such they could be considered to be at risk. POL will be revisiting these numbers in 2016 and it is a real possibility that the funding requirement for the post office network for 2018/19 and subsequent years is higher than these expectations set out• Depending on BIS's final SR settlement this might require discussions with BIS Finance and / or HMT in 2016 to make sure the network has access to sufficient funding, otherwise branches could be at risk of closure.
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Background and other notes if needed:**Background on POL**

- There are over 11,500 post office branches in the UK, with the Post Office network at its most stable for over two decades.
- Government has invested almost £2 billion in funding POL since April 2011 to sustain and modernise the network ensuring communities have access to services and that POL remains viable in the future. This includes £640 million for the period running from 2015 to 2018.
- 93% of the national population (and over 95% in urban areas) live within one mile of their nearest post office branch.
- Around 18 million customers & a third of SMEs visit post offices every week.
- Post Office Ltd was separated from Royal Mail in April 2012, and is an independent company. It has a long term commercial agreement with Royal Mail to provide access to Royal Mail services at post office branches.

Government services

- Tim may raise Post Office's role as a provider of Identity Assurance via the government's "Verify" service. Post Office are one of a number of Verify providers and currently have the largest market share and success rate. However, volumes have dropped significantly below those projected by the Government Digital Service (GDS), largely due to HMRC withdrawing some of their online products from the Verify service. Post Office are therefore concerned that they will not meet their revenue projections as a result of the promised volumes not materialising, and Tim may ask you to raise this with Cabinet Office colleagues. We have already flagged this to GDS at official level.

Horizon

- Tim Parker agreed with Baroness Neville-Rolfe that he would undertake a review into the Post Office "Horizon" IT system and various claims that subpostmasters have been wrongly prosecuted as a result of faults in the system. Tim has appointed a QC to assist him in that review, and expects to report back to Baroness Neville-Rolfe early in the New Year.
- We do not expect Tim will want to discuss this matter in detail. The government's position is that, while Tim is undertaking his review, while Post Office continue to work through mediation of individual cases, and while the Criminal Cases Review Commission considers the c.20 applications on this matter, it would not be appropriate for government to intervene.

Consumer Futures (CF)/ Citizens Advice (CitA)

- CF is a statutory consumer protection body, created by merging Postwatch and Energywatch, with a general interest in "consumers of postal services" and may investigate "any matter relating to the number and location of public Post Offices". The organisation was subsumed into CitA in April 2014.
- CF has played the key role in overseeing the public consultations on changes to post office locations.

- The step up in numbers of consultations related to Network Transformation (NT) has been matched by a step up in the numbers of CF case workers. CF's increased scrutiny is beginning to create friction and frustration with the risk that this will impact POL's ability to meet NT targets.
- More troubling is CitA's research programme which, through its narrow focus on POL is lacking a strategic context to their findings.
- The funding for this activity comes from Royal Mail (RM) via a levy on that business. RM has been challenging the levy (c £3.2m this year). BIS refutes RM's claimed entitlement to judge whether each piece of work meets a 'relation to postal activity' test. However, we are sympathetic to the idea that the levy should not be used for CitA work looking at Post Office's other business activity e.g. financial services. CitA view any activity which may affect Post office's viability as being worthy of investigation and thus eligible for funding via the levy. We are challenging them on this and will continue to do so as we move into reviewing CitA's work plans for next year.

Annex A

Tim Parker biography:



- Mr Parker started as Post Office Limited (POL) Chair on 1st October 2015.
- He replaces Alice Perkins who stepped down in July 2015. Neil McCausland had been interim Chair (having been Senior Independent Director).
- Mr Parker is the current Chairman of the National Trust and of Samsonite. He has been CEO of Clarks, Kwik-Fit, the AA, and Samsonite. He has been Chair of Channel Nine TV in Australia and the Autobar Group, Europe's largest vending company. He has also served as a non-executive director on the Boards of Legal & General, Alliance Boots, and Compass Group. He is also a director and owner of the British Pathé film archive.

Annex B

YTD performance information:



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