

## November Board – CEO Report notes

### Speaking note

#### *Framing*

- Focus of today's conversation is our transformation of the Post Office to create a commercially sustainable agile business, focussed on the needs of our customers
- David will be joining us at 10 and I'll go into more detail to frame that session
- For now, **let's be clear on what we're doing today**
- Since our away day in June we've been focussed on getting ahead of a very dynamic market to put this business on a path to profitability
- Notwithstanding what we've already achieved as a business, the scale of the turnaround is significant
- However, many of the transformation programmes are well underway – such as those on IT, winning and mails and FS – we've discussed them as a Board and will continue to do so at regular intervals
- What we're doing today for the first time, is taking a holistic view of the totality of the transformation programme and the associated risks
- This perspective is potentially daunting but we'll only deliver if we approach this as an integrated programme supported by the necessary capability and governance
- Today's session is focused on setting us up for success as we strengthen our change management capabilities during the rest of the financial year
- After lunch, Chris will turn our focus to in-year trading and talk us through the P7 results – which remain disappointing
- The market particularly in **mails** remains fiercely competitive but we did exceed our performance for last year, and we're seeing the benefits of the sales efficiency campaign
- The Christmas campaign launched with a great response – too early to call the impact and Christmas trading will be critical to us achieving revised forecast of £345m at year end
- On **financial services**, we've been invited to a roundtable with the Banks chaired by Vince Cable on the 2<sup>nd</sup> December – the focus will be on community access to finance and is a great opportunity for us to raise the profile of discussions to expand our service, on commercially

viable term. Thanks to Richard's team for facilitating the event and securing a prominent voice for the Post Office

- On cost reduction, we began consultation this week on the first wave of headcount reductions which will remove over 300 posts.
- My CEO report gives you an update on Industrial Relations where we've been discussing the headcount changes with Unite and the CWU. The latest position is that
  - After lobbying, Andy Fury met Acas on Monday and Tuesday
  - The CWU is still likely to call action next week for w/c 1st December – we understand there is likely to be a Postal Exec to authorise action on Thursday. This means that, if action was authorised, the earliest date for action would be Thursday December 4<sup>th</sup>
  - Our contingency plans remain in hand and Keith has instituted further pre-funding this week.
- Finally, on the programme updates, I'd flag that we'll review how these are presented as we stand up reporting on the integrated transformation programme
- One point I'd highlight is on the IT programme, where we note that Fujitsu have withdrawn from the front Office Tower Procurement
- This is a risk the team had anticipated and work is well underway to manage the risks around transition to a new provider when the contract expires end March 2017
- The Board will have the opportunity to review the programme in January

### ***Specifics***

- Finally, two other business updates for you (POca and Sparrow)
- Firstly, we're continuing to make progress with DWP to secure the 7 year contract for the Post Office card account
  - Getting closer to a deal – the latest negotiation has reprofiled the payments to increase the cash we are paid in the first three years of the contract (allowing us to break even) and reduce payments in later years (albeit still profitable to us). This delivers the savings required for DWP.
  - DWP finance have signed off the revised profile and we're awaiting formal confirmation

- Positive, however I'd sound a note of caution given the experience of negotiating this contract so far. Thanks again to Richard's team for their work coordinating the many voices in Whitehall
- If we were to secure a deal, it is likely to be before the end of December in which case I would be looking for the Board to review the contract by correspondence (suggest correspondence if we can rather than a board call)
- **And finally on Sparrow (key points – longer note from Mark sent separately)**
  - Last week's meeting with MPs was difficult and at times unpleasant.
  - The fundamental question being asked of us at the meeting was whether we would agree to a "general assumption" that we would agree to mediate in every case where Second Sight recommended this course of action
  - The team has considered the position, and has come to the conclusion that we should not agree to the "general assumption"
  - There are several reasons for this:
    - It would make the working group, which was set up with TOR agreed by the JFSA, redundant as it would simply be waving cases through. This would be contrary to the WG's central role to decide on whether any given case out to be mediated (a position repeated by the Chair in I decision on a specific case: *"decision as to whether a case should go forward to mediation is entrusted to the WG"*)
    - 'Pre-agreeing' would also force us to mediate in criminal cases where the legal processes have not been exhausted. We have strong legal advice suggesting we should not take this course.
  - This will clearly be unwelcome for the MPs so we are preparing for every eventuality.
  - We could expect media coverage, probably at a low level, but are well prepared for this. We are also proposing that our letter setting out our position to the MPs be drafted so that it can be released to the media, given the MPs point about media pressure. This gives us a chance to set out our position and meet the "Clapham Omnibus" test.
  - We are also making contact separately with Oliver Letwin to impress upon him the nature of our position. We have a number of channels open to us here.

- The chair has never fully articulated his view on mediation in all cases and he has never said that he agreed with that proposition. However, he is certainly more disposed towards agreeing mediation in some cases where Post Office is not. We do not however believe that maintaining our current line raises the risk of the Chair making a public statement – he is bound by a confidentiality agreement and we believe he will want to avoid any negative publicity around the working group
- Given the potential collapse of the working group, we have also taken the precaution of seeking further legal advice from a leading QC at Blackstone Chambers. The robustly expressed view is that withdrawing the Scheme in its current form does not expose POL to any significant JR risk
- This is clearly important and good news. We are well positioned. The strategy we set out in the summer is working. We have a strong media position and public narrative, while the legal backstop suggests that our risk of JR is low (and certainly lower than we thought in the Summer)
- The recommendation of the Exco is that we hold our nerve on this. We will complete all the investigations by Christmas and continue to work as part of the Working Group.

## Background

### Section 2: Business update

*Mails: What is the impact of a click and collect Christmas (as referenced in the market intel section)?*

- Any increase is already factored in to the mails forecast and the numbers are fairly immaterial (less than £100k).
- The market is very small as most click and collect is with host retailer.

### Section 3: Programme Updates

*Network Transformation: Where are we on the cliff?*

- The 'cliff' remains an important tool to add further compulsion to aid transformation of the agency network.
- Our analysis shows that we will need additional compulsion, especially for branches with a good retail offer who could successfully operate locals but who are currently choosing not to make the transition.
- The cliff was agreed last year for implementation not before September 2015, but we believe an earlier implementation would maximise NT's ability to keep transforming branches all through next FY.
- We hope to agree terms of the cliff (i.e. for which additional branches compulsion would be required) during Q4, both with the shareholder and the NFSP. Regular meetings with the NFSP are scheduled between now and February 2015. In these we have raised the topic as part of overall discussions on their long term future and network extension i.e. that we expect to need to enact a cliff. But discussions with the NFSP are currently focused on their organisational future: meaningful engagement on the cliff will have to wait until some progress is made there. We expect to return to the Board with more concrete proposals on what can be negotiated with the NFSP in January.

*Win in Mails: What have we learnt from the trials and where next?*

- The Ivy trials began at the end of September and we have successfully rolled-out to 153 sites.
- We are now working to increase this up to 200 sites by January.
- As expected, volumes have been low, primarily due to the fact that we are offering Home Shopping Returns only.
- We have been actively trialling different marketing approaches (e.g. digital) to raise customer awareness and drive volumes, however we have not seen a measurable increase in volumes.
- Overall the process of implementing these trials has provided POL with valuable insights on both the deployment process, the operational challenges involved and differing marketing approaches.
- We have confirmed the importance of raising awareness of the service through e-retailers and we will continue to work with Royal Mail to implement the necessary changes to their returns slips.

- In light of the limited commercial viability of these trials we do not intend to increase any further Ivy outlets but focus on increasing usage (until the broader product set and strategic technology is available in April).
- We don't want to cease the trial at this time as we are about to enter the key Christmas period and then the key returns time, and to close these would send an unnecessarily negative message to our partners, Royal Mail and the NFSP
- We will review Ivy in January and then make a recommendation to ExCo and subsequently the Board, based on performance and where we have got to with our longer term solution.