

POST OFFICE LIMITED
BOARD

DISCUSSION PAPER
LEGALLY PRIVILEGED

Group CEO Report

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Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

As referenced in last month's report, and in light of some of my early observations around driving accountability cross the business I have implemented a new operating rhythm and meeting cadence which focuses on ensuring we have much more emphasis and control around our delivery, costs, accountability and across our product lines. This new model will take effect from w/c 18th November and comprises of the following:

- Weekly CEO Lead Team meeting – shorter and focused on the week ahead and horizon scanning
- Weekly Trading & Business performance meeting – attendees are key product owners and focus is purely on weekly sales and performance
- Monthly strategic GE meeting – key focus is strategic and forward looking items, as well as key business and decisions with time for strategic forward looking discussion
- L40 huddles – renamed Leadership Council - now scheduled every fortnight, as opposed to every three weeks. Key focus is groupwide issues across the business as well as culture, purpose and ensuring cross functional alignment
- Monthly UK Operation meetings – key focus is lowering costs, delivery and improving our productivity across our network
- Monthly Customer Plan – key focus is improving our customer proposition and strengthening our brand across the network
- 10@10 – a weekly all staff townhall huddle, on Wednesdays at 10am for 10 minutes. Key focus is on company performance and topical issues of the day and an opportunity for me to answer questions from colleagues. Held primarily in Finsbury Dials, but will be held in other locations across the year. Each session will be filmed and highlights from the update will be uploaded onto a dedicated intranet site and cascaded internally.

As part of this new model, a new engagement plan for GE and our Leadership Council is being created, to ensure we rapidly increase and improve our interactions with postmasters and spend more time outside Finsbury Dials, with our regional colleagues and in our branches with customers. I will share more details about our plans at the next Board meeting. As an example, December's GE meeting will be in Chesterfield and all GE colleagues will be 'on the road' in Christmas week meeting Postmasters and customers.

Financial & Cash Performance

IRRELEVANT

Key Business updates

Network & Christmas planning

Network development programme is still on track. Year to date we have delivered 54 DMB exits and almost 150 new network locations helping to maintain our network of around 11,600 branches. We are also on track to deliver 15 of the new parcel shop locations before Christmas with 14 already delivered. Early indications are mixed regarding number of parcels being handled each week. We are now conducting a full review of the initial pilots to inform future plans especially around branding and operational execution.

We have now concluded Project Edgware. 72 branches have been delivered to date with the remaining 2 branches on hold due to lease issues between WHS and their landlord. (Gloucester and Chelmsford). £5.6m annual benefits will be delivered each year over the 10 year contract term. We expect to have around 120 DMBs remaining at the end of March and following GE discussion our plans for 20/21 will be to divest as many as we can. The McKinsey analysis highlights how significantly loss making the estate is and we must accelerate the divestment next year.

We continue to build on our contingency planning across the business as the political landscape remains uncertain. There are various options currently being developed which would enable Post Office to respond quickly to any emergency service issues created in the network as a result of the GLO outcome or the potential collapse of a large retail partner.

Five additional mobile vans are in the process of being equipped and are on track to be ready for use by the 25th November. Additionally, the 'Post Office in a box' solution (a smaller footprint, quicker and cheaper means of local service provision) is also on track to be tested in five pilot locations across the UK by early December, in areas where we are currently experiencing service issues. Following the pilot and refinement, we plan to use this new concept more widely across the network as a contingency.

Launch of Captial One Credit Cards

We have successfully launched two new credit cards with Capital One, only four months after signing the agreement. Our MVP went live online on 5th November (soft launch), with digital marketing following from the 12th. So far, anecdotal feedback on the customer experience has been positive; we will share the first performance metrics next month. In parallel, we are working on delivering a small branch pilot in Q4, driving a second release of journey enhancements, and building our customer understanding to refine the proposition set and features from the current MVP.

New Identity proposition

We have initiated a trial in 15 branches for a tablet-based solution for Digital Check & Send (DC&S) passport applications which will run until December. Unlike the existing DC&S solution available in 700 branches with AEI booths, this will cover all passport application types, not just adult renewals. Assuming the trial is successful, we will then roll out the solution to c.1,500 branches during the first half of 2020, eventually decommissioning the AEI service to reduce costs. Following the update provided at the October Board, negotiations are underway for a short-term extension of our contract with Digidentity, pending the conclusions of the wider strategy review to determine if digital identity is one of our 'big bets'.

Christmas planning

The Christmas Campaign landed in branches on the 11th of November and is centered on the theme 'It's Post Office Season'. The marketing material comprises of posters (for those branches with poster space available), leaflets, window vinyl and pin-pad advertising.

We are supporting Postmasters and Area Managers with access to a central app for social media content distribution. The app will store compliant, on-brand content that Postmasters can easily post on their social media channels to drive engagement and footfall to their branches. The initiative is in pilot with 500 app licenses and due to launch before the Christmas period.

Banking Framework 2

BF2 is still fully on track to launch on January 1st 2020. Barclays have reversed their decision, and we therefore have full 100% migration from BF1 to BF2. Following their climb-down Barclays will now 'agitate' from the sides – including pressurising Govt (HMT) and regulators (FCA) to put Post Office under tighter regulatory control and try to galvanise other banks to highlight issues/raise 'noise' to underline their concerns about the service (their main complaint being that we are – in their words - 'semi-monopolistic' and now dominant). We are aware of this and are actively planning a 'phase 2' of our successful reversal campaign, to work with HMT and FCA, gain assistance from BEIS and make sure any input from them is balanced and positive. Our next step is to work with FCA and HMT to understand the regulatory umbrella and to develop plans with BEIS, CA and others to ensure continued buy-in.

ATM's

We currently host just under 2,200 ATMs located across the Post Office network. BoI has notified us that it is withdrawing from the ATM market, and we are working with them towards a contract end date of March 2022 by which time all devices will have been removed. BoI are beginning the process of removing out of licence devices, however some of these we want to retain due to their profitability. This means that if we intend to 'remain' we need to agree a retention package with BoI to avoid the removal of ATMs that we want to keep. At this early stage we believe that the case to 'remain' in the ATM market is strong. Early financial analysis shows that remaining in the market would generate £80m cash flow over an eight year period from 20/21, compared to £14m if we exited the market. To help inform our decision making we are undertaking an OJEU procurement process which is currently underway and on track for completion in April 2020. We will update the board after Christmas and deliver final recommendations in Q4 19/20.

British Gas

As you will be aware we have now signed the contract with British Gas securing an exclusive 5.5yr deal to retain the service in Post Offices, include the addition of the Payzone retail network, and remove the incumbent PayPoint service. The service will go live in Payzone stores from 1st December, with the full transition and exclusivity effective on Jan 1st, 2020. The contract will generate 72m additional transactions p/a and serve ~1.8m customers.

Paypoint have responded as expected, encouraging BG customers to move to other energy providers & targeting Payzone agents around contract restrictions. British Gas are considering how to respond as this is a breach of Paypoint's current contract. We are now stepping up our marketing and communications to both agents and customers.

Agents' Remuneration – well received

Following the announcement earlier this month of further increases to Agents' Remuneration, we have been monitoring press coverage and postmaster feedback. Postmaster feedback via Area Managers has been very positive in the vast majority of cases inevitably wanting more detail and to understand the benefits for their individual branches, but very welcoming and recognising this is meaningful and in the right areas. The most prominent press was in the Daily Mail who led with a positive headline about the amount, welcoming the increases and implying that they have helped achieve this. This largely positive coverage, particularly using the 10% increase as a lead, was the pattern in the other press coverage. Other articles have appeared in Daily Mirror, Daily Record, Convenience Store, Talking Retail, The Grocer, Asian Trader, Post & Parcel News, Retail Newsagent, Scottish Grocer and Convenience Retailer. We will be writing to branches next week confirming the detail of the rate changes and will update with further feedback following this.

Hothouse Programme

The Hot housing programme to develop capability of Area Managers and Postmasters to drive improved performance, has extended to a further 3 regions and will be activated in 700 branches by the end of November. Results from branches in the 1st two phases show a positive uplift in revenue relative to the control group. We are now building a case for an accelerated programme to be on the 'big bets' list. The principle of optimising our existing operation is increasingly looking like the best strategic option. This is a reflection on core capability, our capacity to deliver change and our culture of initiating something new, when results are hard to extract.

Change project spend

In P7 the Investment Committee approved additional spend for 2 large programmes: Branch Hub (Agent Self Service) and RPOS (technology for whole estate deals). We are noting this for the board but not seeking formal approval until we have completed the strategic review (PSG Project) to understand if these programmes are aligned with the long term strategy. For the moment, the programmes have approval to spend until January Board. Spend and deliverables are as follows:

- Branch Hub has spent £9.6m to P7 of their current approved £9.7m spend. The programme forecast £1.9m additionally to the end of January to complete in anticipation of a full adoption plan at the end of Q4.
- RPOS has spent £2.9m to P7. The programme forecasts spending £1.9m to the end of January to obtain 70% product completion built on HIH, a fully configured paystation device and clear Heads of Terms for The Co-Op Group

Risks & Concerns

Royal Mail - Potential Industrial Action

On 13 November the High Court ruled that CWU's postal ballot of Royal Mail employees for industrial action was unlawful, meaning no industrial action can take place until a new ballot is completed. Whilst this means we can safely say that they will not strike officially over the Black Friday, Cyber Monday weekend the CWU have now appealed the judgement. If this fails they will likely re-ballot with the possibility that if this is expedited then they could just feasibly take industrial action in mid to late December. A verbal update will be provided in the Board meeting.

Post Office Industrial Action

A ballot for industrial action at Post Office for Christmas industrial action now looks unlikely. Caution has been urged regarding any new DMB franchising announcements in the General Election campaign period because CWU would likely make political and industrial noise about this, however, with a 5 week lead in time from an announcement of a ballot to a day of action, they would need to manufacture a trade dispute by Nov 19th to call Industrial action on Christmas Eve (their traditional target).

GLO

We continue to await the outcome from our application for permission to appeal to the Court of Appeal in respect of the Common Issues judgment and the Horizon judgment. Contingency plans are in place for when the Horizon judgment is handed down. Work is continuing on preparing our Defence in the Further Issues trial which will be filed on Monday 25 November. The mediation remains in place for 27 and 28 November notwithstanding that the parties may not have received either or one of the judgments by this time. It would be helpful for Post Office to participate in the without prejudice mediation in any event as it will provide an opportunity to gain further insight into the Claimants strategy and expectations. A verbal update will be provided in the Board meeting.

Purpose, Strategy & Growth (PSG)

Progress on our PSG strategy plans is on the agenda for later in this Board meeting.