

OFFICIAL

To: Jenny Willott and Jo Swinson

From: Peter Batter **GRO**

Date: 28 May 2014

Subject: Post Office shareholder team update

Purpose:

An update on progress made against key objectives since December 2013.

Highlights:

Network, agents and staff

Progress continues to be made across the network, with POL meeting interim Network Transformation targets at financial year end; to pilot a mechanism for removing unviable subpostmasters (spms); and advancing plans to grow the network through new access points. They have reached pay agreements with both CWU and Unite without compromising the strategy to bring the Crown network to break-even.

Financial matters (performance and revenues)

The company missed its 2013/14 revenue targets, but met its operating profit target. The company is sticking to its 2013 commercial strategy for its 2014/15 budget, forecasting revenues (exc. subsidy) of £925m, but this remains very challenging, with £60m of risk but only £10m of opportunities inherent in the figure.

Mutualisation

POL has developed a Public Purpose Statement and a Mutualisation Milestones Document, both published on 2 May. Progress continues to be made with the underlying mutual ways of working, although mutualisation itself is still somewhat off given its dependence on financial sustainability.

Business transformation and senior management matters

POL remains committed to reducing its central costs by 25% by 2020 (as agreed in November 2013) and has appointed David Ryan to lead on this work. An initial review is expected to be completed by the end of 2014. POL has also moved to address identified weaknesses in its senior management team, with key appointments in HR, NT and business transformation.

Key on-going risks:

Network, agents and staff

POL missed its 2013/14 financial targets for the Crown network and progress has been slower than anticipated on developing the Community Branch Fund (opening in May).

Financial matters (performance and revenues)

Revenue growth in 2014/15 is highly dependent on mails, including the successful deployment of new services (such as Local Collect (Click and Collect)). Uncertainty still remains on the future of POCA, with discussions between DWP and POL continuing.

Exceptional items

The misalignment of views with the VOA continues, but must come to a decision point shortly. The Working Group established to consider complaints raised by current and former spms with respect of the Horizon accounting system has an independent Chair and is beginning to consider cases, but progress has been slow and POL is seeking assurance on its position. Progress towards State Aid approval is underway and on track.