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Network, agents and staff

Steady progress continues to be made across the network, with POL meeting interim NT targets at financial year end; advancing plans to grow the network through new access points; plans to pilot a mechanism for removing unviable subpostmasters (spms); and to build on the improved relationship with the NFSP. In the Crown network, POL has reached pay agreements with CWU and Unite without compromising the strategy to bring the Crown network to break-even. However, the company did miss its 2013/14 financial targets for the Crown network and progress has been slower than anticipated on developing the Community Branch Fund (although this will open for applications in May).

Topic	Then (20 Dec)	Now (May)	Change	Notes
Network Transformation	Contracts: 2,376 Openings: 1,465	Contracts: 3,399 Openings: 2,292	>1,000 contracts signed and >820 branches open	▪ NT accelerated in Q4, with POL exceeding its 2013/14 targets / bonus thresholds by 246 contracts. This represents good progress following the uncertainty created in the run up to the new funding. ▪ We are keen to see POL maintain this momentum and we are working to ensure RemCo is setting stretching targets. Following our request targets are now based on in-year openings, *not* cumulative contracts.
Crown Transformation	Trading ahead of prior year but below budget Franchised Branches: 0 Modernised Branches: 46	Full year £11m ahead of prior year but £3m below budget Franchised Branches: 24 Modernised Branches: 135	Full year loss of £26m which was ahead of £37m seen in 2012/13 but was £3m behind budget of £23m	▪ While disappointing, POL's performance represents significant progress on 2012/13. At the same time a number of actions have been taken (e.g. redundancy, franchising) which will deliver results in 2014/15. Management remain cautiously confident of meeting the breakeven exit rate target by the end of this financial year. ▪ There is some uncertainty around some of the proposed franchises (5 are considered unlikely and 17 are considered challenging). POL is working closely with prospective partners and the CWU.
Industrial Action (Crown Pay)	Ongoing pay dispute across both Crown counter staff and branch managers	Pay deal agreed with both CWU and CMA/Unite. CMA/Unite are now balloting their members, the CWU is expected to follow suit shortly	Counter staff and branch managers' deal agreed	▪ CMA/Unite is now balloting members on the agreed deal for managers and is supportive and recommending the deal – result expected 2 June. ▪ Following agreement with the CWU on a deal that covered pay and new working practices, the CWU then pulled away from putting the whole deal to members. POL pushed back, and agreement has been regained. The CWU will be balloting members by the end of the week. ▪ The deals with CWU and CMA/Unite were secured while adhering to the principles that any increase must be additional to savings identified under strategic plan. This agreement does not put POL's Crown breakeven targets at risk. ▪ Supply chain and admin pay is still outstanding.

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Network Expansion	High level senior management commitment to expand the Post Office network	From a standing start, POL has established a project team that is moving quickly to develop pilots that will be introduced soon. NFSP has been engaged, and it was also raised at conference in May.	Project strategy and governance has been established. Detailed dialogue with prospective partners has also been developed	▪ For the first time in POLs history there are now more competitor mails outlets than post offices. POL understands the competitive threat this poses to its largest revenue stream and the need for a commercial response that retains market share and revenue. ▪ POL is exploring a wide range of new business models that meet specific local requirements, including mails hubs, parcel shops, bureau de change kiosks, etc. ▪ The work undertaken to date by POL on Network Expansion is reassuring and we are expecting the first pilots to be launched, subject to final agreement with various partners, in early June. These should include an automated access point at Tesco's "innovation" store in Lincoln and a parcel-shop at Canary Wharf tube station, in conjunction with TfL. If successful both of these are likely to be quickly followed by further openings. ▪ In this pilot stage POL will be offering an income guarantee to nearby subpostmasters, which has been required to secure their support. This is not a long term solution and prior to a broader rollout of new access points POL will need to find a long term and sustainable solution to address the perceived risk of cannibalisation.
Community Branch Fund	Announcement about the launch of the fund was made in November, alongside the new funding	A further announcement was released recently and the fund is expected to open for applications in May	POL is at advanced stages of developing the application and support process and fund governance	▪ Once open, the Fund will pay out up to £8,000 to Community Branches, and up to £2,000 for Outreach branches. Focus is on: ○ Growth to benefit of subpostmaster and the network; ○ Benefits to Post Office customers; and ○ Benefits to subpostmasters' business and branch viability. ▪ POL will be writing to all eligible Community Branch SPMs in late May to advise them on how they can apply for funding. ▪ The scheme is expected to run for four years (to 2018) and the first awards are expected to be made during the autumn. ▪ There are concerns expressed by the NFSP that the Community Branch designation is preventing some spms who want to leave the network from being able to do so. They are calling for some Community Branches to be replaced by Outreach services, with the leaving spm receiving compensation. This is not part of the strategic agreement reached in 2013.

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<u>Mandated Leavers</u>	Provision for POL to compulsorily exit unviable SPMs agreed in November 2013	Pilot of 50 "guided" leavers to start in late May.	POL is piloting an approach to guide SPMs of unviable branches to leave the network	▪ All subpostmasters were asked to complete two retail surveys, providing POL with information on their retail business's opening hours and weekly branch turnover. ▪ Those branches unsuitable for conversion but where there is a viable alternative retailer in the community, and where the spm has not already stepped forward to leave, have been classified as "Guided Leavers". There are around 900 guided leavers. ▪ Starting at the end of May, 50 pilot branches will be sent a letter explaining that POL wants to work with them to find the best solution to maintaining a Post Office in their community, a process which in certain circumstances might lead POL to serve notice on an incumbent spm. MPs will be engaged at the start of this process.
<u>Relationship with NFSP</u>	Improving relationship following turbulent year of fraught negotiations around Network Transformation	Relationship has further developed, and discussions are open and discursive		▪ The breakthrough in the relationship between POL and the NFSP in 2013 can be attributed to Ministerial direction that POL secure NFSP support for the commercial strategy. ▪ POL's relationship with the NFSP is more collaborative now than it has been for a number of years. Both sides are closely engaged on Network Transformation and Network Expansion and the NFSP also now participates in a number of joint working groups with POL. ▪ POL is also working with the NFSP to define its future in a modernised network – i.e. one where the traditional role of the NFSP might not be needed but where spm representation and support is still critical. We expect to see further progress in this area this year Although any change would be subject to a positive vote at an NFSP special conference, not likely until early 2015.

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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 2015 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. However, revenue growth remains dependent on 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.

Topic	Then (20 Dec)	Now (May)	Change	Notes
2013/14 Performance	POL was trading below budget in revenue, but ahead of budget in operating profit	2013/14 ended below budget in revenue, but ahead of budget in operating profit	POL took actions to address revenue weaknesses, while keeping a focus on cost control	▪ After a poor start to 2013/14, particularly linked to product / pricing changes in Mails, POL's revenue finished the year £34m down on budget. Actions were taken during the year which successfully slowed the rate of decline, putting in place a firmer foundation for 2014/15. ▪ Lower subp costs (e.g. linked to mails volumes) and tight cost control meant POL ended the year £6m ahead of operating profit budget.
2014/15 Budget	The 2014/15 had not been drafted in December.	Approved	POL's Board has approved its budget for 2014/15	▪ POL's Board has approved a budget which is in line, at operating profit level, with the strategic plans agreed in 2010 and 2013. ▪ This is reassuring. Momentum established over the past 2/3 years is being maintained and, if budget is achieved, this points to increasing levels of commercial sustainability and reduced subsidy in the future. ▪ However, the budget is very challenging with £60m of risk but only £10m of opportunities inherent in the figure.

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Front Office of Government	Stakeholder complaints that HMG had reneged on its commitment to promote POL as a front office of HMG. Progress in key growth areas was slow (eg. ID Assurance, Assisted Digital)	PEX(ER) met on 14 May and a Cabinet discussion has been secured for before summer recess. Progress in key growth areas continues to be slow	HMG engagement has been good (eg. PEX(ER), Maude meeting, call to use FOCS) and further meetings are planned (eg. Cabinet, Hammond, Webb). However, results have been slow to emerge putting POL's planned targets at risk.	▪ Progress with GDS in relation to ID Assurance and Assisted Digital has been slow. Both teams are in early stages of delivery so POL does not have visibility around the commercial opportunity (eg. Volumes, market structure and pricing, what services will look like). Progress is likely to remain slow during the current year, and POL also has work to do to get GDS to be supportive of its ambitions in these areas. ▪ Unfavourable opinions from within HMG about POL have emerged (eg. High pricing, old fashioned branches, poor customer service, short opening hours) and POL/ShEx have been working hard to dispel these – mostly anecdotally based – views. This will be a particularly important work stream prior to the pre-recess Cabinet discussion. ▪ POL cam up against strong opinions at the NFSP conference in relation to declining Government Services revenue (eg. The new DVLA contract), and plans to grow revenues in the future (eg. Reviewing POCA, ID Assurance, etc). This concern is likely to remain until there is clarity/evidence that revenues are stabilising or growing. ▪ Good progress has been made with Home Office with: (i) UKV&I planning to move secure collection for renewed biometric residence permits onto the Front Office Counter Services (FOCS) contract from June 2014; (ii) HMPO in advanced discussions to digitise check and send under FOCS; and (iii) Security Industry Authority and all remaining biometric residency permits potentially also moving to FOCS.
POCA	POL initial offer rejected by DWP	POL "best and final" offer also rejected by DWP but discussions still ongoing. Ministerial meeting June	POL has offered a 10% per account reduction and an overall reduction on their initial offer.	▪ A series of meetings have taken place to ensure that DWP and POL are assessing options on the basis of agreed figures on migration and agreed specification for what POCA services DWP requires. ▪ DWP clear that they will need to extend current contract but not yet convinced that a son-of-POCA for pensioners under FOCS framework offers best vfm for them beyond 2017 or whether they will go to public procurement. However discussions still underway. ▪ POL's "best and final" offer is at breakeven for them, it is unlikely they can go much further on cost, but DWP are continuing to push.

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Mails	At end December, mails and retail revenue was £25.4m adverse to budget	The 2013/14 FY ended with mails and retail revenue £28.7m adverse to budget	Performance in mails and retail improved compared to the previous three quarters, but still underperformed to budget	▪ 2013/14 mails revenue was £28.7m adverse to budget, and £18.0m lower than the previous year. ▪ The primary reason for underperformance was due to changes Royal Mail made to its parcels strategy in April 2013 (e.g. related to parcel cost and sizing) having a worse than expected impact on POL, leading to a contraction of the overall market and a loss of market share. ▪ 2014/15 sees a forecast 9.8% (£37.9m) rise in mail and retail revenue. This will be dependent, in part, on the successful on-boarding of eBay and Amazon for collection and returns services. ▪ POL must begin preparing for the 2017 scheduled renegotiation event with Royal Mail, and are attempting to build deeper relationships with Royal Mail at all levels.
Current accounts	Current accounts pilot launched May 2013, E Anglia in 39 branches. By end Dec 13, c2,000 applications, c1,000 sales, only 50% of target. (Product mix Control 14%; Standard 83%; Packaged 3%)	Pilot extended to East Midlands Jan 2014 covering further 71 branches (110 in total). By end May, c. 4,910 applications, c.2,400 sales. (Product mix Control 17%; Standard 80%; Packaged 3%).	In Jan 2014, POL forecast 3,000 sales by end June; 5,000 by end Sept; and 30,000 by end March 2015. Latest figures suggest they are slightly behind target.	Review by POL Jan 2014 found that: ▪ Varied sales performance across the branch network. Had not been a focus for the Crowns. Marketing delivered a strong uplift of c30%. ▪ Lower application to sales conversion rate than anticipated (55% versus 83%). This has particularly impacted Control applicants, however BOI credit risk have now agreed to amend the score card, which will improve the conversion rate. ▪ Customers tended to be loyal to the brand, +50 on average (older families; approaching retirement) and of good credit quality / affluence. ▪ Wider pilot will bring in other demographics (e.g. "Inner City"), ▪ Subject to outcome of wider pilot, POL plans to extend to another region by June/July 2014 and ultimately have 2,000 POL branches selling current accounts by March 2015 [**NB NOT PUBLIC**]. ▪ POL also intend to enhance the proposition with a number of product and service enhancements eg switching to VISA debit functionality rather than maestro, a mobile app, SMS alerts, online account opening, customer correspondence review. [**NB NOT PUBLIC**]
NS&I	NS&I wish to stop sales of Premium Bonds (PBs) over PO counters	HMT agreed that NS&I could sign up to contract with POL but pressed BIS to pay costs: BIS has declined.	POL has contract with NS&I for PB sales over PO counters to Sept 15	▪ From Sept 15, NS&I technology upgrade would enable a fully online system including for those buying on behalf of others (eg guardians of someone with disability). ▪ Since contract signature, HMT announced in the budget an increase in the amount of PBs public could buy – POL is negotiating with NS&I over changes to contract whilst minimising any additional cost.

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Mutualisation

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

Topic	Then (20 Dec)	Now (May)	Change	Notes
Mutualisation Milestones and Public Purpose Statement	Agreement with POL to publish the public purpose and mutualisation milestones	Public purpose and mutualisation milestones were published in early May 2014		▪ As part of an update on the Community Branch Fund in early May, and ahead of the NFSP conference, POL published its public purpose and mutualisation milestones (in an abridged form compared to what you saw in POL's strategic plan). ▪ Unfortunately given other news at the time this did not get much coverage however it was discussed at the NFSP conference and will be helpful in 2014/15 in mapping out immediate next steps (e.g. as the public purpose is embedded and as other workstreams develop).
Post Office Advisory Council	The POAC appointment process was underway	The POAC has launched and has held its first meeting	Appointment of a Chair and >20 panel members	▪ The POAC was set up for people to engage with POL, to share ideas and provide feedback on commercial and strategic matters. ▪ POL received >200 applications for membership and >20 members have been appointed on 2-4 year fixed terms. ▪ This is a positive development and demonstrates a move towards mutual ways of working. However we will want to see more progress during 2014/15 in this and other engagement / cultural areas. ▪ Members of the POAC include customers / members of the public and subpostmasters and POL employees, in addition to charities (e.g. Age UK), SME's and larger businesses (eg. Google and John Lewis).

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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. Since November, POL has moved to address identified weaknesses in its senior management team, with key appointments in HR, NT and business transformation.

Topic	Then (20 Dec)	Now (May)	Change	Notes
Business Transformation	Limited work had been undertaken	POL has started to make progress but remains at a preliminary stage	Divisional teams have started on this project, and governance is starting to be put in place	▪ As part of the plan signed up to by POL and HMG, POL is required to reduce many of its costs by up to 25% by 2020. As a first step this requires a bottom up review of POL's business model to understand what can be done at lower cost, while still supporting the plan. ▪ This review has recently begun and is expected to be completed towards the end of 2014. It is taking longer than anticipated but POL remains committed to achieving the targeted cost savings. POL's new appointee (David Ryan, see below), will bring further clarity to this area.
Exec Pay	Exec pay in 2012/13 CEO – GRO CFO –	Exec pay in 2013/14 CEO – GRO CFO –		▪ RemCo toughened the targets for the 13/14 year and this has been reflected in the level of payout. ▪ Proposals for the 14/15 year will be submitted to SROC shortly (expected June), and for your subsequent consideration.
Exec Team	POL was experiencing a number of gaps in senior management	Some gaps remain but most weaknesses have been addressed	A number of new appointments have been made by POL in the last 6 months	▪ **Neil Haywood:** Appointed HR Director to lead on all people / cultural transformation issues. Fills a role that had been open for >12 months. ▪ **Chris Aujard:** Appointed interim Counsel after the departure of Susan Crichton in 2013/14. A process to find a permanent replacement is advanced. ▪ **Ian Kennedy:** Appointed to lead Network Transformation, splitting the responsibilities of POL's existing Network Director. ▪ **David Ryan:** Appointed as a consultant to lead on the Business Transformation design, planning and procurement. ▪ In addition, **Martin George** (Commercial Director, who was appointed a few months before you left) continues to change POL's approach winning further business and acting more commercially

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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 subpostmasters 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.

Topic	Then (20 Dec)	Now (May)	Change	Notes
VOA	Discussions between BIS and the VOA ongoing to identify a solution that does not result in externally facing ATMs being separately liable for business rates	Discussions have reached an impasse, and further options are being considered	Both interdepartmental policy and legal routes were explored without reaching agreement	▪ The VOA has not been persuaded by BIS's arguments that externally facing ATMs at agency branches should not attract separate business rates. ▪ The likely liability falling to subpostmasters is now £15.3m, which includes the four years retrospective liabilities (2010-11 to 2013-14) and the 2014-15 in-year liability. Ongoing costs are likely to be in the region of £4-5m per year. ▪ If VOA does implement its proposals, Ministers have previously arrived at the view that subpostmasters should not individually bear the costs of the VOA policy. However agreement still needs to be reached to determine how the cost of the liabilities are met, and by whom.
Horizon	Working Group established to consider applications made by current and former subpostmasters	The Working Group is progressing very slowly and no case has yet been fully considered	The lack of progress is generating considerable frustration for all members of the Working Group	▪ The Working Group has an independent Chair in Sir Anthony Hooper, a former High Court and Appeals Court judge. ▪ POL has so far investigated around 80 of the 147 applications received. It remains confident of the integrity of Horizon, and that it is not legally / financially exposed to any material risk. ▪ The JFSA is showing signs of becoming increasingly agitated with the lack of a "smoking gun" and appears keen to exit the Working Group. ▪ POL has received legal advice that it bears no financial liability for SPM losses where there is no systemic system failure, and is keen to reform the Working Group. ▪ BIS is keen for the independent Chair to take the lead on any reform, or for POL to have very firm third party technical, legal and operational assurance before instigating a change.

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State Aid	Planning was underway to meet the March 2015 deadline (i.e. end of the current funding)	The State Aid approval has begin and is in a "pre-notification" stage	The BIS / POL teams met with the Commission in February and submitted a paper in April	▪ After an informal meeting with the Commission in February BIS / POL submitted a "non-paper" in April which marks the beginning of the State Aid approval process. This paper has been reviewed by the Commission and we will be meeting with them in Brussels in June. ▪ This is good progress and both teams are confident of meeting the March 2015 deadline for an approval. We also believe there is a chance an approval might be received earlier, before the New Year.