

Group CEO Report

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First six weeks

I am delighted to be sharing my first Board report as Group CEO. At the time of writing I have been in role for just over 5 weeks and I am pleased with the level of progress achieved. I have met, individually, with all members of the GE and L40 and discussed and agreed tactical objectives with each of them. It felt important to emphasise the need for a delivery and commercial focus from the outset.

Some of the highlights of where I have been spending my time, include;

- On day one, I hosted a welcome breakfast for all colleagues in Finsbury Dials
- On day two, I hosted welcome conference calls for our colleagues in Chesterfield, Bolton and Payzone, as well as field and remote working colleagues
- Visited our offices and met with teams in Chesterfield, Bolton and Payzone
- Spent a day out in our Supply chain and cash operating unit
- Two days of branch visits and meeting with Postmasters
- Launched the Purpose, Strategy & Growth (PSG) project with McKinsey
- Hosted three L40 events, and have begun refocusing the purpose of the group
- Attended the Financial Inclusion Policy Forum at the Treasury and the recent BEIS Network Partnership Organisation meeting
- Met with two CEOs, Paul Patterson, Fujitsu (recently taken over from Duncan Tait) and Francesca McDonagh, Bank Of Ireland; I am due to meet with Rico Back, Royal Mail on 28th October. A meeting with Carl Cowling, CEO, WH Smith is scheduled next month
- Had an introductory meeting with Kelly Tolhurst MP, which was encouraging. She has since suggested we meet bi-monthly going forward, and I separately met with Permanent Secretary, Alex Chisholm and his policy team
- Launched the Organisation Health Index (OHI) with all colleagues following the L40 check list questionnaire

Most of my early observations will not come as a great surprise;

- the lack of real time management information and data
- the need to quickly establish a better operating and trading rhythm
- the importance of driving accountability across the organisation (see above for objectives)

- the necessity to rebalance the dominance of process, risk, audit compliance and governance with a greater focus upon customers, postmasters, products and services
- the need to build a proper business consciousness. Focus upon operational success and performance
- the lack of an organisational change roadmap – no capability, nor capacity management, nor understanding of what we want to be. No narrative.
- no change governance (nor design authority). Doing too much and not necessarily the right things. “Stop-start-continue” required.

Fundamentally, many of these issues are a consequence of a lack of clarity around the purpose, vision and strategy of the Organisation. Colleagues are not clear ‘what good looks like’ nor what they are trying to achieve. Customers remain unaware or confused by our proposition. There is a huge opportunity to redefine the purpose of the Post Office, for all stakeholders and this remains my key objective.

I would like to extend my thanks to AI for his support during my transition period, which has been invaluable.

Financial & Commercial Performance

P6 Trading profit was **IRRELEVANT** on an underlying basis, leaving us **IRRELEVANT** **IRRELEVANT**. While travel started to stabilise and we saw continuing positive trends in Mails, Banking and Identity, results deteriorated in Insurance and Telecoms and we are now facing sustained headwinds. The first consolidation of the 6+6 forecast showed us on a trajectory to miss plan by **IRRELEVANT** **IRRELEVANT** as a result. Urgent work is underway to mitigate this and we have accelerated the spans and layers work to deliver more this year.

Five Year Plan and future funding agreements

We have agreed to postpone the five year plan to undertake a first Board review in January and a final approval in March, enabling us to align it with the strategy and priorities work - Purpose, Strategy & Growth (PSG) – McKinsey are assisting us with. We are currently agreeing a baseline plan from which the PSG work can operate. This will be agreed before the end of the month to provide a stable basis, shared with McKinsey, to iterate. Overall the commercial headwinds have worsened since the July review and we are focusing on costs mitigations happening earlier. The baseline plan will not solve the issue that we will not generate enough cash in the period to fund all the investments we would like to make: the PSG work will enable us to undertake less, affordably.

On an early view of cashflow, subject to the above, we continue to believe that we can fund a reasonable GLO settlement from cash efficiencies. The challenge is that the Bank of England facility is forecast to contract severely as POCA is

shut down, ATMS reduce and market cash withdrawals are falling in both value and volume. The Bank of England's position is that they won't review the structure of the BCS arrangements until they are clear on a future cash utility. We will therefore need to discuss with Government how we can hold our working capital facilities whole.

We have raised the question with UKGI on what process and timetable we will need to follow to agree funding arrangements after March 2021 which will be relevant to a going concern assessment in our 2019-20 Annual Report. Clearly, some uncertainty on timetables will remain given the political environment, however an initial submission for the spending review will be required by BEIS in December. It may be that we need to convene (by phone) as a Board to agree this submission.

2018-19

We have published our Annual Report for 2018-19 confirming trading profit of £60m.

Spans & Layers

Wave 1 of this began last month with 58 roles impacted it has been delivered successfully and received with minimal noise, and wave 2, which has 50 impacted roles, is scheduled to commence early next month. The total annualised saving to the business of both Waves 1 and 2 is [IRRELEVANT] in-year benefit versus a target of [IRRELEVANT] set in July 2019.

Key Business updates

Network & Christmas planning

Delivery of our Network Programmes continues at pace. 43 DMB exits have now been delivered against a target of 69 and we remain on track to deliver in year benefits of [IRRELEVANT] 107 NNL's have also been delivered to date against an end of year target of 220.

Implementation of our trial Parcel Shop proposition is progressing well with 6 locations now live. Performance levels at branches are in line with early expectations. Marketing is predominantly via digital channels on the RMG website. Social media is also live via face-book for those within the vicinity of the stores. The Parcel Shop device will also be deployed in around 100 of our high volume mails branches over the Christmas period in order to help manage queues and improve overall customer experience.

The next wave of SSK simplification enhancement will be live in branches by the end of November, creating a better customer experience in time for the peak Christmas period. Key improvements include changes to returns processing and clearer information on Saturday Delivery pricing.

Barclays & Banking Framework

The media reaction resulting from the Banking Framework announcement was as briefed and expected – highly critical of Barclays decision and supportive of formal (even legislative) pressure on them to reconsider. We continue to watch as the positive '28 banks sign up' message is used to pressure the one bank that hasn't.

The negative noise around Barclays continues to build and on the political side, Andrea Leadsom, SoS at BEIS, has publicly called on the bank to reconsider. This is in addition to the Chairs of the BEIS, Work and Pensions and Treasury Select Committees. A cross party letter signed by over 100 MPs has been sent to Jess Staley, the Bank's CEO. They were joined by support from the Payment Services Regulator, Citizens Advice, Which?, Access to Cash Review Chair, Natalie Ceeney CBE, MoneySavingExpert.com as well as many others.

The BEIS Select Committee has asked Post Office and Barclays to give evidence about the impact of the latter's decision to stop cash withdrawals on 5 November, General Election permitting. On the media side, almost all nationals have criticised Barclays, but the Daily Mail is undertaking a sustained campaign which, at the time of writing, appears to have some distance still to run.

During my meeting, Kelly Tolhurst expressed her support for our approach and remarked that she would be contacting Staley this week.

POca

The Department of Work and Pensions has now revealed their tender plans to replace the POca service for the most vulnerable customers. The suggested solution is so complex, the customer journey so poor, and the investment costs to fulfil the CRM and MI so onerous that we are investigating the impact of a 'no bid' decision as we feel their proposal is unfit for purpose and detrimental to customers.

As a result, they intend to go out to tender on 8 November on a voucher based system and which will likely provoke a very negative reaction from all stakeholders. As things stand currently, we will not be bidding to offer the replacement product. We have informed BEIS at official level, and I briefed Kelly Tolhurst during our meeting. The Minister fully understands our concerns and agrees that, in circumstances where DWP remains fixated on a voucher based system to replace POCA, we will not bid. She has, however, asked us to work with her Department and with her directly in an effort to combine forces in making one last push for a policy change at DWP, which we have readily agreed to do.

RM negotiations update

Negotiations have been progressing well over the course of the last 6 months resulting in both sides agreeing on "in principle" positions;

- **IRRELEVANT**
- Overall equivalence to current financials on day 1 of the new deal
- POL to sell RMG products and services online through POL website

This now allows the parties to move into detailed commercial discussions with the aim of signing a new agreement before 18th January 2020. The output will be documented with agreed positions and any remaining points of difference shared with the Board in November together with recommended next steps to achieve the target date.

IT – Belfast Disaster Recovery success

We recently completed a successful Fujitsu Belfast Datacenter disaster recovery test, including our Horizon trading platform, for the first time in 6 years.

Risks & Concerns

CWU Ballot for Industrial action with Royal Mail

The CWU ballot results showed 97% support for industrial action (76% turnout). The earliest the CWU could serve notice is w/c 29th October, however this is unlikely and current speculation is that any action could be timed around Black Friday in November or Christmas. The CWU is currently stating that the timing is entirely dependent on Royal Mail and its leadership's willingness to negotiate. It is also unlikely that the CWU will bring any action forward from the date on the ballot paper (believed to be 20th Nov) as this would allow RMG to take legal action to prevent it.

We are working with Royal Mail on priorities and contingency plans. A joint IA working group has been convened with all relevant POL representatives. Based on detailed work undertaken before the potential strikes of 2016/17, we have requested that all branches except the very smallest (for mails volume) receive a collection by RM once per day with more for the higher volume, urban locations prioritizing branches across our network. Our plan includes setting up a POL control centre and we will, of course, be working closely with our postmasters throughout.

Brexit

We have produced a leaflet for circulation in our branches advising customers on any key issues and actions they may need to take, that we are aware of, in the outcome of Brexit taking place on 31st October. In order to support our

branches, colleagues from the business will be deployed over a two week period around the withdrawal, to assist our customers in branches with any queries and support they may need. (Branch support will be for those likely to be most affected due to high international volumes/passports etc).

GLO - KELs Disclosure incident

As briefed earlier this month we have identified and disclosed an incident relating to KELs. I met with Paul Patterson, Fujitsu and expressed our disappointment with the incident. A verbal update on the overall status is on today's meeting agenda.

We continue to work through the mediation process, including the quantum analysis so that the Board can delegate authority to the Board Sub-Committee the making of an appropriate offer(s) at the mediation which is currently scheduled at the end of November. This may be delayed because of the KELs disclosure issue which in turn delays the handing down of the Horizon issues judgment.

Personnel

Mark Davies will be leaving the business at the end of December. Until then, he will be assisting part-time with the GLO communications. The Communications department has split with Internal communications moving into HR department; Corporate & Public Affairs will report into me. A recruitment process is underway.

New strategy & vision - Purpose, Strategy & Growth (PSG)

I have commenced a Purpose, Strategy & Growth project, with assistance from McKinsey, which will define and shape a forward strategy for Post Office, specify the organisation capabilities and behaviours required to win, and identify the technology needed to support us in the future. Further discussion on this topic is on the agenda later in this meeting.

As part of this process we launched a McKinsey Occupational Health Index (OHI) survey to all colleagues across the business. The purpose of this is gain insight into the 'health' of the organisation with outputs used to shape the overall plans for the organisation. Further discussion on this topic is on the agenda later in this meeting.

We are conducting similar research amongst customers and Postmasters. I want to get away from opinion and base decisions on data and facts.

Input Sought

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