

CEO's Report

Author: Paula Vennells Meeting date: 31st January 2017

Executive Summary

Context

Our goal for 2016–17 is to achieve EBITDAS of (£10m).

Our 3 year goals are:

1. To accelerate the transformation of Post Office.
2. To secure commercial sustainability for the long term
3. To establish a business that can ultimately fund investments and the social purpose from profits rather than subsidy.

In summary, our strategy is to secure our position as the UK's number one parcels and letters retailer, grow in financial services and protect our network and social purpose – all supported by a much leaner central organisation.

Questions this paper addresses

1. What is on my mind? (*successes, challenges, opportunities and risks*)
2. What are the implications for our outlook and plans?

Conclusion

1. YTD EBITDAS at the end of P9 was £4.1m favourable to budget, reflecting strong performance in mails trading through the peak period and continued cost control.
2. The restructuring of the business continues and we have made announcements on the appointments of direct reports to the Group Executive, Project Finch and tranche 3 of franchising for directly managed branches. As yet, we have had no notification of further industrial action.
3. Discussions on future funding continue with Government. A full update will be provided in the Board meeting.

Input Sought

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

The Report

Looking Back

WHAT HAS GONE WELL?

- Financial Performance – P9
 - EBITDAS in P9 and YTD is £4.1m favourable to budget; driven largely by costs.
 - Mails performance was particularly strong in P9 delivering a performance £2.9m favourable to budget; £5.3m YTD. This was driven by labels and priority services.
 - Expenditure in P9 was £3.7m favourable to budget; £9.1m YTD. This is driven in part by lower staff costs. Headcount of 5,647 is 208 lower than P8 and 958 lower than the start of the financial year.
- Customer Measures
 - As in previous years, P9 has seen poorer performance against customer measures. However, some measures still exceeded target, specifically:
 - Effort scores were 72%, 4pp ahead of target but 3pp below YTD performance.
 - Wait Time Acceptability was 90%, 1pp ahead of target but 2pp below YTD performance.
- Changing the Business
 - The announcements of changes in the network (Tranche 3 franchising, FS Sales) on 8 January have been delivered effectively with limited reaction to date. Consultation processes are well advanced. The public affairs team are working to address some of the union led briefing with e.g. Members of Parliament.
 - Appointments of direct reports to the Group Executive were announced on 5 January and briefings have been held in all teams to talk through their new structures.
 - The Pensions Roadshow programme started in Chesterfield on 17 January and feedback so far has been positive
- Contact with Government
 - I met with Lord Gardiner, Parliamentary Under-Secretary of State at the Department of the Environment, Food and Rural Affairs on 11 January.
 - This was a positive meeting and an opportunity to highlight our future plans. We discussed Post Office's contribution to rural communities and the banking framework. The Minister expressed support for our approach.

- Project Iris
 - The Phase 1 depots are now operating the new routes successfully and Phase 2 will start in February.
- Support for colleagues
 - You may recall that a colleague in our Supply Chain lost his parents in the atrocity in Tunisia in 2015. The court hearing on these tragic events began last week.
 - I have been contacted by our colleague to thank Post Office for the support we have been able to provide to him and his family at this difficult time. I am pleased to report this example of our values in action.

WHAT HAS NOT GONE WELL?

- Financial Performance – P9
 - Despite strong performance in mails, gross income in P9 was £(0.5)m adverse to budget; £(10.5)m YTD. However, Supply Chain revenue was £1.4m (YTD £3.9 adverse).
 - The performance in mails was offset by continuing weak trends in lottery; declining call volumes in homephone; and lower income from POca and Verify.
- Customer Measures
 - P9 saw performance miss target against three customer measures. Specifically:
 - Customer Satisfaction was 82%, 2pp below YTD performance and target.
 - NPS was +62, 4 points below YTD performance and 3 points below target.
 - FS NPS was +27, 2 points below YTD performance and 1 point below target.
- Back Office
 - As reported to the Audit Committee, we have seen a number of incidents across the back office which have required additional work to manage and require further improvements.
 - Fragility in IT applications such as Credence and POLSAP reduced the availability of back office data and systems and required sales volume summary MI tables to be re-built.
 - Issues in cash forecasting required urgent deliveries to some branches across Christmas (no branches cashed out) and an inter-company transfer of funds which was not in line with POM's delegated authorities.
 - Issues were flagged transparently and quickly; and remedial actions were effective. The need for systematic learning is being built into existing programmes of work on IT and cash.

Looking Ahead

FUTURE FOCUS

- Organisational Design
 - Announcements for c20% reduction in support teams are on track for early February. We will provide a more detailed verbal update at the Board's meeting.
- Funding
 - Supported by Richard's team, we continue to press for a meeting with the Secretary of State to discuss our funding proposals. We have held a positive meeting with Conor Burns MP, Greg Clark's Parliamentary Private Secretary, who agreed to raise our case with the Secretary of State.
 - I am meeting Mark Russell and Chris Branningan (Prime Minister's Director of Government Relations) respectively, this week.
 - In the meantime, detailed conversations continue at official level. We believe decisions will be made as part of the spring budget, giving us a degree of certainty. However, outcomes are unclear. We will provide a verbal update at the Board's meeting.
- Mails
 - The Joint Strategy work with Royal Mail is progressing to plan, with work covering aspirational customer journeys, cost drivers, capability needs, the value proposition and our operating model options.
 - I had a positive review meeting with Moya Greene in December and we saw an increasing level of ambition from RMG. However, until we move from strategy development into a commercial negotiation we cannot say with certainty what the likelihood will be of any acceptable new commercial arrangements.
 - RMG's share price is under intense pressure and its CFO has announced his retirement. RMG has gone into consultation to close its pension scheme
 - We plan to come to the Board in March 2017 to seek a formal mandate with RMG. My next meeting with Moya is on 27th April.
 - In summary, our critical success factors will centre on how we offer the best in class proposition for our customers; support the long-term sustainability of the network and our agent proposition; deliver profitable income over the long-term for Post Office Ltd; and add value to our brand equity.
- Banking Framework
 - The Banking Framework is operational and to support the launch, a national and regional print, online and broadcast campaign begins this week. MPs and special interest groups will also be briefed.
 - We will be emphasising the important role of the Post Office in providing access to banking services especially where communities are some distance

from a bank branch, or have experienced bank branch closures. An interview with Nick Kennett will feature in the Financial Times.

→ We are already in conversations with some banks to expand the range of services provided.

- Broadband

→ A national and regional campaign is also going live this week to raise awareness of Post Office broadband. The campaign will emphasise the value we offer and seek to reassure customers on issues relating to security.

RISKS OR CONCERNS?

- Industrial Relations

→ We remain in dispute with both the CWU and Unite.

→ The GE held challenging but generally constructive meeting with representatives of Unite on 22 December to share our business plans down to 2020/2021 with Unite. The CWU declined the invitation to a similar meeting on 3 January.

→ We have not received official notice of any further Industrial Action taking place since from either union.

→ However, we continue to plan on the assumption that further action will be called. For example, RMG's pension consultation could trigger further industrial action and the Unions would seek to co-join action. Our industrial action contingency plans are under review and remain in a good state of readiness.

→ Transfer from weekly to monthly pay attracting noise from CWU but remains on plan via direct engagement with c.800 impacted colleagues.

- Project Peregrine

→ A letter setting out our position (for the second time) was delivered to Bank of Ireland before Christmas. We have not received a formal response yet.

- Project Sparrow

→ Application for the dispute to be heard via a 'Group Litigation Order ('GLO') will be heard on Thursday 26 January.

→ Post Office will be consenting to the matters being heard under the GLO procedure, although there are a number of aspects of the procedure that need to be agreed.

→ We expect that the postmasters will present any outcome as a victory for them. Accordingly we propose to respond positively along the lines that Post Office welcomes the Court's decision that the dispute should be heard under the GLO provisions as this offers the best opportunity for the matters in dispute to be heard and resolved.

→ We will update the Board on the outcome following the hearing on Thursday and we will provide a more detailed verbal update at the Board's meeting.

- Fujitsu
 - Many of our plans are dependent on close working and new approaches with Fujitsu. Their own policies are complicated and it is not yet clear that we have an effective route through.

In Conclusion

CONFIDENCE?

At the end of P9 the business is ahead of target for the year, reflecting strong performance in mails trading through the peak period and continued cost control. This provides scope for cautious optimism that we will hit our EBITDAS target for this financial year.

IMPLICATIONS?

We will need to remain focussed in order to achieve this year's target. The great challenge is the scale of change the business is undertaking at the same time as delivering year end, working on funding and fixing next year's budget. We continue to engage directly with colleagues, explaining the rationale for change and responding to feedback, especially from those most directly affected.

Nonetheless, there continues to be optimism for our future success as a business which we are seeking to carry through our discussions on future funding and with key partners.