

## Nick Read – Senior Leadership Group speech - 22 April 2022

### Part 1 | Ten years of independence

A year ago, I set out my Intent to 2025 and my ambition for Post Office to become a successful, self-sustaining and sought-after franchise retailer.

A business that not only sustains its role in a fiercely competitive mails market, but also grows it.

A high street retailer that is the mainstay of cash for communities and small businesses across the UK for years to come.

A business that leverages its UK-wide infrastructure to forge new partnerships with market leading companies that combine their expertise with our network and brand.

And – above all – a business that partners with our Postmasters so that they can serve their communities.

This remains our Intent – and I will review our progress in a moment.

However, I want to start by taking you back ten years.

In April 2012, Post Office became independent from Royal Mail Group.

We have maintained a close partnership with Royal Mail, but that decade since separation has been transformational for Post Office.

Over those ten years, this newly independent business has made some bold commercial decisions.

We have begun to find our feet as an independent retailer, while remaining true to our social purpose.

Let's take some time to recognise the scale of that change.

With more commercial freedom, we have innovated and doubled down on our core strengths.

Our second Mails Distribution Agreement with Royal Mail achieved vital twin objectives.

We are sustaining a great partnership with them for the next decade, while freeing us to secure major new opportunities with global players like DPD and Amazon.

This consolidates our largest source of earnings – selling Royal Mail products in our branches - with complementary earnings from other carriers wanting to leverage our network.

We are also growing new revenue streams, notably by reinventing ourselves as an essential part of the cash and banking system - with the creation of the Banking Framework – first launched in 2017 and now in its third iteration.

Today we provide a vital lifeline for the millions of people and small businesses that rely on basic banking services.

Our innovation in banking continues.

Last year, we successfully designed and led trials for a totally new model of retail banking through our BankHubs.

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A further eight banking hubs will be opened over the next 12 months; as well as improving 30 branches with new dedicated cash services.

Let's also remember that we have expanded our payments business, introduced new digital identity services and, when the time was right, simplified our business - including the sale of our telecoms business.

More widely, over the last decade, we have done all that has been asked of us by Government.

At the Government's direction, and enabled by its investment, we have: modernised over three quarters of our network; provided hundreds of thousands of extra opening hours a week; and enhanced accessibility for our customers.

While an emotive topic for some, this network transformation was much needed to support Postmasters build more agile, more sustainable businesses that are better adapted to a fast-changing retail landscape.

And that hard work has been successful.

In 2012, there were 11,605 branches.

At the start of 2022, we had 11,606 branches.

I think you'll agree - that's pretty good for consistency over ten years.

Over the decade, we have also made significant progress in meeting the Government's expectations of us for our increased commercial sustainability.

From a trading loss of £116 million in 2012/13, we recorded our first trading profit in 2016/17.

In every year since separation, we have also reduced our costs, in line with Government expectations – and more importantly because it was the right thing to do for our Postmasters.

To illustrate our progress, consider the fact that we received £210 million in network subsidy in 2012/13.

In 2020/21, by contrast, this figure had shrunk to just £50 million from the Government to support the uncommercial parts of our network.

But the value we bring to the UK shouldn't be measured solely in terms of our commercial growth or branch numbers.

We know customers and citizens increasingly prize more nuanced measures of success: the value a company brings to its local communities and what – put simply – it gives back.

And on those metrics we have, if anything, been even more successful.

Our Postmasters have supported UK communities day-in-and-day-out as well as through a number of crises.

We are always there for the most vulnerable:– whether working with energy companies to enable vital bill payments for the fuel poor; or our partnership with the Trussell Trust to fight hunger; or the support we are providing to help refugees fleeing Ukraine.

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But perhaps the best illustration of our broader contribution to society is the essential role our Postmasters played through the coronavirus pandemic.

The past two years have clearly demonstrated quite how many people still rely on the Post Office.

This is because, despite the rise of all things digital, being there in person - as a physical presence in each community - continues to be essential.

Post Office is more than just another retailer on the high street.

More than a place to send a parcel, more than a cash provider, or a place to top-up the energy meter.

Post offices are all these things but they are much more than that.

They are fundamentally a public asset - a resource for communities to draw from and rely on in times of genuine need.

A much needed and reassuring constant in an increasingly uncertain world of change.

This is thanks entirely to the combined efforts of our Postmasters:-

Those running independent franchises and our strategic retail partners; and our colleagues - whether serving customers in our Directly Managed Branches, working in our supply chain or wider support roles.

So let me take a moment to say thank you to all of you for the many achievements of the last few years.

You should feel rightly proud.

### Part 2 | Challenges

In the ten years since separation from Royal Mail, Post Office has undeniably turned a very significant corner and has established itself as a major public asset.

But this success begs the question, what does the next decade look like for Post Office?

Let me be candid: the next few years are likely to be challenging.

As a result of the pandemic, our customers' needs and expectations have changed.

And changed permanently – with more retail needs met online; and more banking needs met digitally.

In the near term, we can be confident that our core businesses in parcels and cash services will continue to perform robustly.

But, looking further ahead - in say five to ten years' time - the position is less clear.

Further changes in consumer preferences and behaviour in those core markets will likely present us with a new set of questions about our product and service mix.

And right now the broader economic outlook is also challenging.

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Inflation is rising dramatically.

Increases in the cost of living are becoming ever more real - with the energy price cap rise and increased National Insurance payments having taken effect this month.

This gloomy economic outlook is exacerbated by war in Ukraine.

In short, we are all likely to need to make difficult financial choices in the years ahead.

Yet after months of discussion, I am pleased to say that we have received our final funding settlement from Government for the next three years.

This comes some five months after HM Treasury announced the outcome of the Comprehensive Spending Review.

As before, the core settlement is composed of a network subsidy which is frozen at £50m a year to offset some of the costs for maintaining the unprofitable parts of the network.

There is also £185m over the next three years for investment – which we will principally draw on to transform our branch IT and deliver wider changes to our technology, including making improvements to Branch Hub.

We will also continue to seize commercial opportunities by delivering our own ATM network and expanding our PUDO offering.

We recognise that the funding for this investment takes place against the backdrop of extraordinary pressures on the public finances.

So while I would, of course, have liked a more generous settlement to be able to do more, we have to set our plans consistent with the funds we have like everyone else across the country.

While our Intent to become a successful, self-sustaining and sought-after franchise business absolutely remains our objective, we need to accept that this may take longer than planned.

Beyond our funding, we also pressed the Government about the need to use the three years to look further ahead so that we can set ourselves up for continued success in this ever changing retail environment.

Therefore, I am pleased that the Government has accepted our call for a fundamental review of its policy for Post Office.

Working with the Government, we want to think creatively and help it articulate more clearly what role it foresees for Post Office over the next decade.

That will help us plot a course over the next three years to achieve this.

These are questions that neither Government, nor Post Office, can answer alone.

If we are to preserve this great institution for the next generation, we will together need to be bold in thinking about how we stay relevant to our customers.

We will need to ensure we continue to manage our costs and make further progress on our path towards self-sufficiency.

We must be open-minded in consulting Postmasters and other stakeholders across the UK.

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And then we will need to be determined in our effective implementation.

Post Office is simply too important to allow it to sleepwalk into an uncertain future beyond 2025.

And while ten years may sound a long way off, a project of this scale will likely fill that timeframe very quickly indeed.

### **Part 3 | Priorities in the present**

What then are our priorities for the financial year ahead?

We need to reprioritise our plans consistent with the funding we have for the next three years.

To remain focused, we will concentrate our efforts on three priorities.

Each of these is designed to lay strong foundations so that, as and when we emerge from our current challenges, we are as prepared as we can be to accelerate progress.

I am deeply conscious that many of our Postmasters will find the going on the high street pretty tough over the coming months.

It is no surprise that our research with Postmasters consistently shows that their top priority continues to be their remuneration and overall branch profitability.

Although we have made significant improvements to remuneration over the last two years, we will need to do all that we can to improve further.

Not least as we know that Postmasters are increasingly concerned about the costs of living crisis, including rising rents from their landlords.

And there is continued nervousness as business rates relief from the Government for the pandemic comes to a close, introducing further cost pressure on branches.

As remuneration and branch profitability is their number one priority, so it should be the top priority for the whole of the Post Office.

So what does that mean for us?

As we simplify our business further for the benefit of postmasters and customers, we will need to lower our cost to serve – continuing to look for opportunities to take cost out at the centre as well as helping take cost out for our Postmasters in running their branches.

Our programme of simplification will be driven under the banner of “Stop, Start, Continue” – as we formally address our cost to serve.

We should also make further progress this year with new commercial opportunities.

In cash and banking, we will ensure that implementation of Banking Framework 3 is properly and smoothly executed, and that our Postmasters are fairly rewarded.

Meanwhile, we will start to roll out counter cash automation to make it easier for Postmasters to handle the increased volume of cash crossing their counters.

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In Mails, we will extend our position further in the 'Click and Collect' market by expanding our offering to a further 3,000 new branches on behalf of Amazon and DPD, while introducing our first "Drop Off" service for customers.

We are talking to other major clients in this Pick Up and Drop Off market and hope to make further announcements in the first half of the financial year.

And, all the while, we will of course look to cement and enhance our long-standing, long-successful partnership with Royal Mail, from which some £350 million of our revenues are generated each year.

As many of our existing Government service contracts come to an end, we will renew these agreements and look to extend our services to new Departments and agencies, with improved commercial terms.

All of these developments offer more transaction fees for Postmasters but also more reasons for people to walk through the door, generating important footfall.

And all the while, we will need to consider the profitability of branches in the context of our wider online portfolio.

We must ensure we find the right balance between our in-branch products and our platform products, such as insurance and financial services.

Bluntly, we understand that the love of the job isn't enough – being a Postmaster must also generate an income, drive footfall and further enhance the Postmaster's retail offer.

Our second priority for the year, which will also help long term with our costs, is to continue transforming our technology.

We have already started delivering an ambitious programme to replace Horizon with a new system that will underpin the future of our network by the end of 2025.

Built with Postmasters, for Postmasters, it will use much more modern technology and will be an upgrade of both hardware and software for our branches.

The new IT will be simpler and more intuitive to use, reducing the likelihood of mistakes being made, speeding up transaction times and letting Postmasters focus on what they do best - serving customers.

By Christmas this year, we are aiming to have over 100 branches – in our new 'Drop and Collect' format – open and operational on our new systems.

And by the end of the financial year, we will have tested a live counter replacement operating all core products.

We will then refine our training ahead of starting the wider roll-out across the network next year.

We want to ensure we take time to design, build and test the new system so that it meets Postmasters' needs.

But the first step is often the hardest, and we are now well and truly out of the blocks.

At the same time we will also deliver other essential IT programmes to underpin the success of our business.

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By the end of the financial year, we intend to complete the migration from our Belfast data centres to cloud based technology – helping us become a modern, agile retailer with more robust and more secure IT.

We will continue to improve Branch Hub, building on the successful roll-out of our new Branch Performance Tool.

This includes launching Branch Hub on Horizon this summer, so that Postmasters have the most relevant insights and data at their fingertips to make informed decisions about how best to run their branch.

### **Part 4 | Priorities of the past**

And our third priority for the year ahead will be to continue to address the past and rebuild trust.

Most, if not all of us, will have joined the Post Office with a deep sense of responsibility to preserve and extend its vital role in society for the next generation.

We are the custodians of an institution which, despite its current challenges, remains at the heart of our national life and which it is our privilege to lead at this particular juncture in its long history.

But, as its current custodians - I know, and we all know - that we cannot assume any responsibility for its future success unless we also assume the responsibility for addressing its past failures.

As I see it, reckoning with the past and rebuilding trust in the year ahead consists of three elements.

First, the Horizon IT Inquiry which is now, quite rightly, working on a statutory footing and, as a result, is equipped with appropriate powers to compel evidence and witnesses.

As you would expect, we are giving every possible assistance to the Inquiry as it establishes what went wrong and ensures these historical failings cannot be repeated.

That full and transparent cooperation will continue until the Inquiry reaches its conclusions.

Together with our shareholder, I have no doubt that we will want to give effect to the recommendations which Sir Wyn may make, at the earliest opportunity.

Second, we are delivering compensation as quickly as we possibly can.

Let me say straightaway that I hear, very clearly, those who are saying it is simply taking too long for them to obtain their compensation - I agree.

But as frustrating as the time it is taking clearly is – we should recognise that this a difficult exercise that must be completed comprehensively and conclusively for the benefit of those who have suffered for years – and in some cases decades.

And we must get it right first time.

And while we can and must do better, there are genuine issues to be addressed that limit our ability to progress as quickly as we would like – chief of which is that the funding for the compensation is coming from our shareholder.

It is entirely understandable that the person paying the bill, the Government, should want to scrutinise the costs carefully - not least as it is public funds being spent.

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That level of assurance does take time to achieve.

Government has chosen to require Post Office to administer the schemes through which compensation is evaluated and then paid to those it is due.

I understand this is not a universally welcome decision given the role of the business in causing the very harm which we are now asked to remedy.

I have some sympathy for this view.

However, while that responsibility sits with us as the new management of the Post Office, we will work as fast as we possibly can to get compensation approved by Government – and paid to people who have suffered long enough.

To do this, over the anticipated end-to-end timeframe of providing redress for Historical Matters – from 2018 through to 2025 – the Government will have chosen to have us set aside over £300 million in Post Office's accounts.

This is for the administration, management and legal fees to deliver compensation to all those impacted – including contributions to those settlements.

It is a huge sum.

But it is a sum driven by the process we are having to follow and to ensure that full, fair and final compensation is rightly paid.

Whilst our funding settlements, complemented by how we make use of our trading profits, may have looked different if remediation of past failings was not such a necessity, it remains a fact that it is over £300 million that is not available for investment in our Postmasters and our network which people across the country rely on.

It also means that for the trading profits that we have generated over the last couple of years have not been fully reinvested in the business, and that is set to continue for the next three years.

We have to accept the hard truth that, fully three years on from the judgment in the first Group Litigation trial, the true cost of the darkest chapter in the business's long and previously distinguished history continues to reveal itself.

There also remains the situation of the original Group Litigation claimants - the 555.

Last year, in a similar speech, I explained why I thought more needed to be done to compensate this group.

I am delighted that case has now been accepted with the recent announcement from Government that they will fund further compensation for the 555 – which we are keen to support, although do not have the resources for ourselves today.

We now need, collectively, to implement quickly whatever mechanism Government designates for the purposes of ensuring an equitable outcome for this group.

The third area for focus in addressing the past is continuing to deliver operational and cultural changes across the business.

Because as well as righting the wrongs of the past, we have a responsibility to ensure that all the lessons are learnt and such events can never happen again.



## CHECK AGAINST DELIVERY

The ambition is to transform the support we provide to our Postmasters and rebuild a genuine partnership with them, in which we offer our help when problems arise rather than assume the worst from the outset.

We are making good progress.

We have welcomed two Postmaster Non-Executive Directors to our Board, as well as an executive Postmaster Director, to ensure our future is grounded in their day-to-day experience.

We are embedding our new Ways of Working with all our colleagues, ensuring what we do and how we do it are equally important, with their emphasis on the importance of our partnership with Postmasters and how we work collaboratively together across all aspects of delivery.

Cultural improvements are being integrated into all areas of our business, from our supply chain to our branch support centre, from our colleagues serving in branches to those in head office we are all focused as one team delivering for our customers.

This cultural change is fundamental to enable our transformation.

Without it we will not realise our Intent to 2025.

This cultural change is also realised in the operational improvements we are delivering with greater involvement of Postmasters

We are working in partnership with our Postmasters, as one team to deliver the changes needed to ensure the success of the Post Office for the benefit of our customers.

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Cultural improvements are being applied throughout our business, from our supply chain to our branch support centre, from our colleagues serving in branches to those in head office.

This cultural change is fundamental to our transformation. Without it we will not realise our Intent to 2025.

This cultural change is also realised in the operational improvements we are delivering with postmasters.

## CHECK AGAINST DELIVERY

We have established national, regional and local postmaster forums, as well as Postmaster working groups on key topics, to promote genuine collaboration.

For example, the IT working group has over 200 Postmasters helping with current Horizon improvements, while playing an insightful role in designing future branch technology.

We held our second Postmaster Research consultation in January and I am very pleased that our Postmasters are already seeing the benefit of improvements across the network.

Our research shows that, compared to a year ago, more Postmasters are positive about their relationship with Post Office; more feel supported by the business; more feel valued and more recognise that Post Office understands their day-to-day lives.

We know forging a strong partnership with Postmasters will take time.

This isn't about quick fixes or easy wins, but a fundamental rebalancing in every part of the business.

### **Part 5 | The Future**

Let me conclude by giving you my overall reflections as we begin a new financial year and look to the future.

It's going to take hard graft to face into the headwinds and there isn't a retailer on the high street who disagrees.

And to the challenge of the tough economic outlook, we must add those particular to the Post Office – namely, righting the wrongs of the past.

But let me tell you that, in spite of these headwinds, I remain the realistic optimist who spoke to you last year.

I say this because my faith in the fundamentals of the business, and in the opportunity it represents, remains strong.

Why do I say this?

Because, despite the appalling events which are now being examined by Sir Wyn in his Inquiry, the idea at the heart of the Post Office – a community resource for everyone, no matter who or where you are – is as important and valued now as it ever has been.

When confronted by headlines about the Post Office in national newspapers, you could be forgiven for feeling dispirited - for being downhearted.

In those moments, however, let me invite you to broaden your reading list beyond the nationals, and take a moment to pick up a regional or local newspaper instead.

While you will not escape the local version of the national headlines, you will also discover another Post Office story altogether.

Hundreds of them, in fact.

There remains a deeply held, even fierce, passion in communities for their local post office and great affection and respect for the Postmaster who runs it.

## CHECK AGAINST DELIVERY

I think, for example, of the residents of Heponstall, West Yorkshire who raised shares in a community asset fund to buy their village post office.

Or of the eagle-eyed Postmaster in Paisley, Renfrewshire who stepped in to prevent a vulnerable pensioner from sending cash to scammers abroad.

Of Postmasters rallying their communities to organise donations of clothes and other essentials for the desperate of Ukraine.

Of Postmasters who have recently celebrated thirty, forty, or even fifty years of dedicated service to their communities.

This is Post Office at its best.

While we rightly make amends for past mistakes with appropriate humility, we must not lose sight of our purpose, a little bit of which is written in thousands of communities across the country, every day.

Those daily connections, those daily kindnesses, are irreplaceable.

That is why our job, as the current custodians of this very special business, comes with the very real responsibility for us, as well as for the Government, to keep it in good shape for future generations.

I began on a moment of celebration for the last decade.

Let me end on with a moment of reflection on the next one.

The world is changing fast and customers' needs with it.

We knew that even before a pandemic rocked the world.

But the role and value of Postmasters – of a branch network with a presence in each nation and every community across the UK – has not changed.

We are all committed to this – as is the Government.

As an essential and still much loved business, we must make every effort to meet the changing needs of our customers and the communities they live in.

The next few years will call for hard work, open minds and great collaboration between all those who work for - and with us- as we plot the course for a brighter future.

At its core, Post Office is a great business.

Let's work together this financial year to make it even greater.

Thank you.