

## **CHECK AGAINST DELIVERY**

### **POST OFFICE: FUTURE, PAST AND PRESENT**

**Nick Read, Chief Executive Officer, Thursday 8 April 2021**

#### **INTRODUCTION**

As we start our new financial year - and as we emerge from lockdown - let's take stock.

Like every business in the country, Post Office is facing a new reality.

Our place at the heart of the high street, providing essential services in communities across the UK, is far from assured.

The pandemic has emphasised once again just how many people rely on us.

Being open every day when just about everything else is closed, is as vital as it is appreciated.

But make no mistake – this new reality is both harsh in nature and distinctly unsentimental.

Retail is facing a degree of upheaval unimaginable even a year ago.

Pre-existing trends, like the rise of e-commerce, have been accelerated almost beyond comprehension.

The demise of many of the 'big' names on the high street makes brutally clear that a long history offers no guarantee of a successful future.

Like everyone else, we must adapt or we potentially face a similar fate.

However, unlike every business in the country, Post Office is facing another harsh reality.

That is the need to confront, and face up, to its recent past.

We need to face facts. We failed a large number of postmasters in our recent history.

In just over two weeks' time, the Court of Appeal will determine whether a number of criminal convictions resulting from historical Post Office investigations and prosecutions are safe.

Only the Court can decide such things.

But we can, and we have, expressed a clear view through the stance we have taken in the proceedings.

In deciding not to oppose the overwhelming majority of these cases, the perspective of those of us leading the Post Office today is clear.

An independent Inquiry, led by Sir Wyn Williams, is scheduled to report later this year on our progress in making the sweeping changes needed to prevent a recurrence.

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Confronting either of these challenges would be a tall order. Confronting both simultaneously will require real grit and determination.

But it can be done.

Indeed, I argue that it must be done in the interests of those customers who continue to rely on us for essential services.

It must be done for those who will continue to need us as a vital physical presence in an increasingly digital and impersonal world.

And it must be done in the interests of postmasters without whom there is no Post Office.

They must have the confidence that history will not repeat itself.

They must experience that Post Office has changed and changed for good, as we work together to build a successful and equitable business.

Our first test is to resolve the past once and for all.

We must ensure that all Postmasters affected by this scandal are compensated and compensated quickly.

Whether Post Office's treatment of its postmasters in relation to Horizon amounts to a large-scale miscarriage of justice is for the Court to determine, but I am clear where I stand.

Our organisation's historic handling of this matter fell short.

I am in no doubt as to the human cost of this.

I have heard it in the testimony of those during civil and criminal proceedings, and in the submissions to Sir Wyn's inquiry.

We have to accept that it is the Post Office that caused what for some has been very deep pain.

Absent the possibility of turning the clock back, compensation appropriate to that pain must follow.

And we need to face this reality.

Post Office cannot deliver the future our Postmasters and customers deserve until we have come to a comprehensive and swift resolution that recognises the scale of our shortcomings.

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### THE FUTURE – POST OFFICE IN 2025

I am not prepared to forgo that opportunity because I know that Post Office has a bright future if we focus on the right things.

In four years' time, people's experience of the Post Office will be markedly different.

I want it to be a successful, sustainable, and sought-after franchise.

There are seven strands to our future success.

First, we will **prioritise strong, trusting and rewarding relationships with our postmasters**

A franchise firmly rooted in true partnership, with mutually reinforcing benefits for Post Office Limited and Postmasters.

Postmasters must be listened to, their feedback must be acted on and they must be given the support they need to set-up, run and grow a branch in an increasingly competitive retail market.

That partnership must reflect an appropriate balance and recognise the Post Office's principal responsibility as a franchisor is to serve and support postmasters to give their best each and every day.

Second, we will **grow our network**, making sure we have the right branches in the right locations nationwide.

We are the only retailer with a presence in each nation and in every community across the United Kingdom.

While we have the ability to embrace digital customer journeys where that is the preference, we will also remain local to everyone in the literal sense.

The imperative to do so has only been strengthened over these last twelve months.

A year in which the service provided by our postmasters has never been more essential, nor better appreciated.

We know that sense of connection, continuity and trust has been important to people, to communities, as the country has sought to navigate coronavirus.

Thanks to Postmasters working hard day-in, day-out, we have been conspicuously faithful to our Purpose over this difficult period: "We are here, in person, for those who rely on us."

But to remain here we, too, will need to adapt to the times.

Our branch network must evolve for the way in which people live their lives today.

Where appropriate, we need to offer prospective postmasters the option to take on a post office which provides a range of services better tailored to their business and the needs of their local community.

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Full-service post offices – with all mails and cash services - will continue to be the default.

But we will also offer a small number of clearly defined, but different, formats to complement franchisees' businesses where a simpler model would better meet the particular needs of that community.

For instance, we are already trialling a new format which combines parcels and bill payments services.

We will keep piloting new formats which are simpler and less complex to operate as we continually evolve to meet the changing needs of communities.

They will offer the right products and services, in the right place, and available at the right time.

Over time, we can expect the shape of the network will reflect this evolution, as well as its size, growing to 12,000 post offices by 2025.

Throughout, we will continue to meet the access criteria set for us by Government, ensuring that all our services remain within local reach of everyone in the country as they are now.

We will also have made further progress in the task, begun decades ago, to become a fully franchised business.

Already you are more likely to find a Post Office in a convenience store than a stand-alone presence on the High Street.

In this deeply challenging retail environment, we must ensure that our estate as a whole is sustainable and geared towards the interests of our customers and postmasters first.

Post Offices will, even more than now, be anchors on the high street, acting as a catalyst for improved local economic performance and wider social benefit:

Helping individual customers withdraw cash; online businesses to send parcels anywhere in the world; and small businesses to deposit their takings.

Acting as a multiplier for economic activity. A third of people already visit another shop, café, or restaurant on their trip to the post office, generating an additional £1.1bn to the economy.

And ensuring that nobody is left behind, particularly customers with vulnerabilities.

Third, we will **innovate in mails**, working with more carriers and delivering more of what consumers want and small businesses need.

Services like Drop & Go, which enable them to outsource their otherwise time-consuming distribution and fulfilment needs.

Following our landmark deal with Royal Mail last December, we have already begun to explore the significant opportunities which we now have to work with other logistics and courier companies.

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Marrying the UK's most extensive physical retail network with some of the world's best known and most efficient e-commerce companies is a recipe for great customer convenience and improved postmaster remuneration.

Discussions are well advanced, and some trials are already underway.

Seen through this prism, the spectacular growth in online shopping we have witnessed since the start of the pandemic represents a very sizeable and achievable opportunity for our own growth at both corporate and branch level.

Fourth, we will **secure free, convenient and reliable access to cash in every community.**

Where others only see the costs associated with the obligation to maintain a physical network in communities across the country, I see instead the opportunity and privilege in helping to ensure that everyone who needs and relies on cash is not left behind.

We have all witnessed the dramatic take up of payment alternatives to cash over recent years, and its acceleration over the pandemic.

It is nonetheless the case that millions of people and small businesses in this country continue to rely on cash to get by every day, and millions will continue to do so over the medium term.

As the number of bank branches and free to use ATMs in the country continues to decline, the local post office remains as the one place which can be relied upon.

Relied upon by people to withdraw the cash they need to budget effectively and as the one place businesses can deposit their takings locally, without closing up and having to travel to the nearest market town.

For the benefit of customers and postmasters alike we will begin to offer more automated services, for example to facilitate deposits of larger sums of cash.

Britain is not ready to become a cash-less society, much as some of the banks would like it to be.

In my view, it is incumbent on Government to ensure that those who continue to rely on it can do so, and we stand ready to provide them with the access they need, as we have done for the customers of all the UK's major banks on a standardised basis since January 2017.

Fifth, we will **build commercial partnerships, to launch new products and services in our branches and online.**

Even in an increasingly digital world, the Post Office network can provide a vital solution for the provision of many services and prosper in the process.

The Post Office continues to occupy a place of trust and continuity in the minds of many and provides unparalleled reach across the country

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We are bringing value to new commercial partners like Yoti, a global leader in digital identity services, with whom we are launching an app, Post Office EasyID, next month.

As the UK emerges from lockdown, this technology, combined with our reach and brand recognition, could help to facilitate a return to safe international travel.

It will allow people to prove their identity reliably and easily. This could be used to demonstrate their Covid-19 status to airlines without putting their personal data at risk.

And for those without the means or technical knowhow to achieve this online, we will help them to do so in branch.

Sixth, we will **invest in new branch technology for postmasters and online for their customers.**

It will come as surprise to no-one that a cornerstone of my plans to unlock the Post Office's potential will be to invest in new technology for our postmasters.

Setting aside issues around the robustness or otherwise of older versions, the simple fact is that huge strides have been made in IT in recent years and, the age and relative inflexibility of Horizon is brought into sharper relief.

And so our new ways of working with Postmasters will be underpinned by a new IT system which will be more user-friendly, easier to adapt for new products and services, and cloud-based to ensure easy maintenance and ready interoperability with other systems.

Migrating safely to a new platform at this scale will inevitably take time since we must ensure that our services continue to be available without interruption. But let's be clear: the direction is set.

In parallel, significant improvements to our online services will enable customers to begin their transaction journey at home and complete it quickly and seamlessly in branch.

Our corporate clients, like the major utility providers and the banks, will see the benefits of simpler but effective transaction journeys for their customers right across the UK's biggest retail network.

They will have new confidence in contracting with the Post Office knowing that our Unique Selling Point, the Network, is properly supported and equipped to meeting their customers' needs.

Seventh, we will **create value for our shareholder with a successful, sustainable and efficient business.**

I make no bones about it. Government has been extremely generous to the Post Office in the last decade, as it has sought to emerge successfully as a business distinct from the now privatised Royal Mail.

That transformation is not complete, but we must continue the path towards self-sustainability for two principal reasons.

The first is, self-evidently, that even Government has only finite resources available in seeking to meet the seemingly infinite demands placed upon it.

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The Post Office must, therefore, play its part in freeing up Government funding for other priorities - whether in the NHS, education or transport - as soon as it sensibly can.

The second reason is less obvious, but no less important.

A self-sufficient, financially robust and sustainable Post Office will be in position to consider new ways of promoting genuine alignment in the interests of postmasters and the business we have started to build as we look to a more positive future together, working as partners.

A modern franchise based on genuine partnership.

A growing network blending full service and new format branches, providing services better tailored to local need while promoting operational simplicity for postmasters.

Innovation in mails and parcels with new carriers, generating unparalleled convenience for customers and driving new business into our branches.

A guarantee of free to use cash services right across the country, promoting inclusivity, and stimulating economic performance.

New partnerships with leading businesses to generate value for customers and postmasters by leveraging the trust in our brand and the reach of our network.

A compelling offer to our corporate clients in meeting the needs and preferences of their customers, powered by a modern IT platform.

The prize: a genuinely self-sustaining franchise which appropriately balances the interests of its constituent parts in delivering simple but essential services in every community in Britain.

However, and as excited as I am to lead this organisation towards that goal, I recognise that before we can unlock the future, we must first fully understand and confront the past.

### **THE PAST – AN IMBALANCE OF POWER**

When I joined Post Office in September 2019, like many of you, I was attracted to what makes it an important and, in many ways, successful business.

Our brand holds an enduring value to customers.

Our network is truly nationwide. The largest retailer in the UK.

In recent years, Post Office Limited had become increasingly profitable although the post pandemic outlook is clearly challenging.

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However, in the eighteen months I have led the business, it has become clear to me that many of our business successes have come at a hidden cost.

A cost which imperils the future sustainability of our business if left unchecked.

For too long Post Office Limited has assumed a 'parent and child' relationship with its Postmasters, rather than a partnership of equals.

There has been a pronounced imbalance of power in the relationship between us, creating a situation in which the company has felt that it has all the answers, and has expected postmasters to follow its lead unquestioningly.

The Post Office thought it was always 'right' and behaved accordingly.

The reasons for this are complex.

I think that they date back to being an executive arm of the government providing wide ranging services to citizens as a custodian of very significant amounts of public money.

For those then in charge, accounting for every penny of this came above all else.

More recently, reducing reliance on the public purse for investment and subsidy became the company imperative.

And the pursuit of trading profitability became the new mantra, often to the exclusion of many other considerations.

That is not to say that trading profitability is not important. It is.

It provides the fuel for investment and change, to improve our services and deliver more for our customers and staff.

It now needs to benefit Postmasters as well.

The imbalance of power at the heart of the relationship between head office and individual post offices has led to a situation in which the interests of postmasters have consistently been overlooked while Post Office marched on.

Let me set out my view of the three factors at the heart of what went wrong.

### **Culture**

During the Group Litigation, Mr Justice Fraser issued two judgments.

The first focused on the proper meaning of the contract the business had with postmasters.

However, I believe that the underlying issues he revealed were cultural, rather than purely contractual, in nature. Indeed, many of his own comments reflected as much.



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For years, it appears that Post Office came to understand the contract as meaning that postmasters were to be held responsible for whatever happened in their branches in all circumstances.

Once the training had been delivered, the operational kit installed and the cash handed over, the prevailing view was that the postmaster was accountable from that moment on.

Whatever actually happened in branch, if money went missing, the Postmaster was 'on the hook' so to speak.

The judgment exposed the mismatch in the capabilities, the information and insight available to Post Office Limited and individual postmasters, especially smaller independents.

Postmasters were simply not given a fair share of the analysis, the support or the opportunity to resolve discrepancies.

That is reflective of the imbalance of power I identify.

The priority appears to have been what mattered to Post Office Limited first, and everything else came second.

In so far as it persists, this culture must change – quite simply, we must put postmasters first in everything we do.

Without them, there is no Post Office.

### **Horizon**

The second judgment from Mr Justice Fraser focused on the historical reliability of the Horizon system.

I am not in a position to comment on previous versions of Horizon or their degree of reliability.

But I do know that the system, initially designed to automate benefit payments made by Government, had a difficult introduction.

It was likely not as well adapted to the broader use to which it was ultimately put as it might have been.

This was exacerbated by a relative lack, historically, of sufficient in-house know-how and capability to manage the contract effectively.

The net result was an over-reliance being placed on third party assurances about its performance.

On my watch, this is changing.

### **Profitability**

Separate from the two judgements by Mr Justice Fraser, and my observations about culture and the Horizon system, I think there is a third element that illustrates the cost of the imbalance of power.

This is the importance of trading profitability of Post Office Limited.

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When the Post Office Limited separated from Royal Mail in 2012, the annual loss was some £120m.

Reducing this loss and seeking greater commercial sustainability became the overriding priority of the business and its shareholder, not least to reduce reliance for funding from the Government.

By 2016, in just 4 years, a loss had been turned to profit.

An impressive turnaround, but at what cost?

An unbalanced focus on trading profitability resulted in a culture which put the needs and interests of Postmasters second.

The overall remuneration allocated to Postmasters was reduced, and the hands-on support the Post Office provided them was much diminished.

These issues are now urgently being addressed.

But I am acutely conscious that, for many, this comes too late.

In two weeks, the Court of Appeal will conclude a process which is likely to result in many historical Postmaster convictions being declared unsafe.

I was clear that the business could not, and should not, act as a barrier to that outcome in the vast majority of those cases.

I am equally clear that where convictions are quashed, these injustices must be righted swiftly through appropriate redress.

If the Court finds that a large-scale miscarriage of justice took place, we can expect it to carry a large-scale cost.

The Post Office simply does not have the financial resources to provide meaningful compensation.

I completely understand that Government is keen that Post Office should be seen to be fixing its own mess.

And through the work being undertaken across the business every day to place the needs and interests of postmasters first, we are doing just that.

But financial compensation commensurate with wrongful conviction is a different matter.

I am urging Government to work with us to find a way of ensuring that the funding needed for such compensation, along with the means to get it to those to whom it may become owed, is arranged as quickly and efficiently as possible.

Acting swiftly would also enable the Post Office to place even more focus on ensuring that there can be no recurrence of these deeply damaging events.

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Our success in this regard is, of course, the subject of Sir Wyn Williams' independent Inquiry, established by Government for the specific purpose of assessing the progress we are making.

As I have previously made clear, the Post Office is cooperating fully with Sir Wyn as he carries out his important work.

I believe that the Inquiry will be vital in demonstrating that lessons have been learned and that the Post Office is changing both for the better, and forever.

I hope it will be an important first step in providing reassurance that the Post Office now has in place the culture and processes to ensure that nothing like this can ever happen again.

We must, I think, acknowledge the uncomfortable truth that for those most impacted by this scandal, the Inquiry will not necessarily bring closure in and of itself.

There are those for whom its terms of reference are too narrow, or its powers insufficient.

I understand these views and, for the record, repeat what I have previously said - the Post Office will cooperate fully with any form of Inquiry Government thinks fit.

We will, therefore, do everything we can to support Sir Wyn in his work to ensure justice is served, any wrongdoing identified addressed, and a measure of closure is achieved for those affected.

Similarly, and although the parties entered into a full and final settlement of the Group Litigation in good faith, it has only become apparent through various news reports since quite how much of the total appears to have been apportioned to the claimants' lawyers and funders.

Should those reports be accurate, it is at least understandable that the claimants in those proceedings should continue to feel a sense of injustice, even in circumstances where they also agreed the settlement in good faith.

What if, anything, can be done on these two issues is not for the Post Office to determine or even within its gift.

The Post Office will, however, continue to engage meaningfully and transparently with Sir Wyn's Inquiry, and approach any future Court proceedings with the same openness, objectivity and fairness as it has sought to demonstrate in the Court of Appeal.

Failing to display appropriate humility as we confront the wrongs of the past will only serve to prolong the anguish of those who have been wronged, and prevent the Post Office from building a positive future on more solid and fair foundations.

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As I reflect on the imbalance of power, correcting the wrongs on their own will not be enough.

The danger is that in fixing the problems of the past, Post Office does not make itself fit for the future.

Not least as the world changes rapidly around us.

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The coronavirus pandemic has accelerated the transformation of the retail market.

It has also brought the importance of what we do into much sharper focus.

My job must be to assure a future for Post Office in which it continues to serve the communities of the UK successfully for years to come.

A precondition of success is systematically to deliver the necessary change to rebalance our relationship with postmasters.

While we are determined to remedy the past, we must place equal urgency in our efforts to reinvent our business model into a partnership which reflects the simple truth that, without them, we do not have a business.

### THE PRESENT – DAILY FOCUS ON TRANSFORMATIONAL CHANGE

Realising substantial and transformational change should be our daily focus.

We should be focused each and every day on making the lives of postmasters better, and their businesses more successful.

To do that we need to be specific about the measures that make a difference.

#### **Modern franchise**

We need to bring franchise arrangements between Post Office and postmasters up to modern day standards.

Those standards must reflect the fundamental fairness at the heart of our relationship and be set out in plain English.

And those arrangements must make clear that Post Office has considerable responsibilities towards Postmasters in making a success of the partnership.

#### **Hands-on Support**

We must continue to strengthen support to Postmasters.

I have already ensured that every Postmaster now has direct support from an Area Manager.

We have recruited 15 people and repurposed a further 34 members of staff from within the business to boost our new 94 strong area manager network.

Postmasters now have regular contact with someone central to the business, helping with operational issues, day-to-day advice and hands-on support.

Where the need is routine or needed out of hours, Postmasters can self-serve online 24/7 thanks to the introduction of Branch Hub.

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### **When things go wrong**

We are undertaking an overhaul of the entire process by which we respond to problems that occur in branch as, inevitably they will from time to time across a network growing to over 12,000 branches.

Our reflex must be to make no presumptions about what might have happened or what might be responsible.

Instead, it must be to listen to our postmasters, and work alongside them, on the basis of shared and equal information, as we look for a solution together.

And the Post Office needs to understand that, in the context of running a small retail business, even relatively modest-sounding amounts of money make all the difference to cash flow and stock availability.

There is nothing such as a 'small' loss when viewed through the right prism.

### **New IT**

We are already taking the first steps towards migrating off the Horizon system for good, in favour of a modern, cloud-based system which postmasters will find more intuitive and easier to operate.

This will not be easy – it will after all be among the biggest, if not the biggest, IT roll-out in the country when the time comes.

But the change is both necessary and overdue, and it begins now.

### **Postmaster voice**

To ensure we know, and properly understand, what it is that postmasters need, they must have a bigger voice inside the business.

We have two serving Postmasters joining our Board as Non-Executive Directors in the first quarter of this financial year.

They will help to ensure that our strategic direction is grounded in the reality of their experience.

In addition, we have been consulting with Postmasters as a whole about their priorities in engaging with the businesses, as well as the best means to enable them to do so effectively.

Rather than head office second guessing the things that matter most to them, we must hear it from them first-hand, and ensure that they are involved on a regular basis to shape and guide our business.

While the consultation process continues, it's already clear that in areas such as marketing, product development, and communications, co-creation will become the norm.

### **Remuneration**

Postmasters must be fairly rewarded for the essential services they provide to our customers in every corner of the United Kingdom.

And their remuneration has improved significantly in both the financial years since my arrival.

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In last year alone, they have shared in an additional £27 million of remuneration, although our accounts remain to be finalised.

Average remuneration across the network is up 7% against last year – quite an achievement given the prolonged coronavirus lockdowns.

There is more to do.

This year we will make further progress as a result of the new Mails Distribution Agreement with Royal Mail; the introduction of new Pick Up and Drop Off (PUDO) services; and with the conclusion of Banking Framework Three.

## **THE FUTURE – TOWARDS PROFIT SHARE**

All of these changes that are underway are essential to our transformation into the modern, dynamic, franchise business we need to be.

There is no question about that.

But I do think the time has come for us to start a conversation about our longer-term goals.

In business, a partnership can be defined as a formal arrangement by two or more parties to operate a business and share in its profits.

All I have described covers the first part of that definition well, but it fails to address the second.

While decisions on our corporate make up and ownership structure are a matter for Government, as our only shareholder, it is my responsibility to lead the Post Office in a way which promotes its long-term interests for the benefit of future generations.

And, as I reflect on that question, it seems to be that there is merit in considering what might be achievable if we succeed in the next few years, as I believe we can and will.

There are a range of options, and we are not yet in the sort of financial shape needed to implement any of them.

Whilst trading profit for the financial year 2019/20 reached £86 million; for the year just completed (2020/21) it is likely to be less than half that because of the pandemic.

And our forecast for the year will not match the achievements of 2019/20.

In a manner consistent with achieving the vital balance between our commercial and social objectives, and the interests of postmasters, we will need therefore rebuild that trajectory of trading profitability growth and ensure that Postmaster remuneration reflects the progress we are making.

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But beyond this, as we look towards the next Comprehensive Spending Review, I intend to work with Government on the various means by which we could deliver on a longer-term aspiration to facilitate profit sharing between Post Office Limited and Postmasters when circumstances permit.

Because, as we become commercially sustainable and no longer reliant on government subsidy, looking for new ways to ensure Postmasters share fairly in that success is the right thing to do.

And I do think it is important, particularly in the context of building something afresh, to share in an aspiration, a common goal.

For Post Office to be in a position, say by 2025, to make this a credible option for Postmasters, their customers and the Government would, it seems to me, represent a genuine achievement.

## **CONCLUSION**

At this critical juncture for the Post Office I am crystal clear about the direction I want to lead it.

The Group Litigation, the criminal convictions being appealed, the issues which gave rise to them and the consequences we are still in the process of quantifying, are deeply challenging.

On my watch, the Post Office will atone for its past. That is a given.

But I am also determined that we will use this moment of profound change in the retail landscape, and the challenges of our recent past, as a catalyst for a fundamental recasting of the Post Office which can and will emerge from it as a modern and successful franchise.

We must strike a new deal with postmasters which recognises that, without them, there is no Post Office.

We must ensure that the formats we offer work with the grain of their business models.

We must give them the tools and the support they need to continue to be the best representation of community-minded businesses this country has.

And, as this partnership takes shape and breeds success over time, we must find a way for them to share, directly, in its profitability.

I recognise that this is a significant challenge, but I am certain that through hard work, determination and no small measure of courage, we can make it happen.

**ENDS**