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**POST OFFICE LTD BOARD****Chief Executive's Report****1. Network Transformation (NT) Programme and Network Expansion**

- Following the re-launch of the NT programme in late November, we have held 36 evening workshops across the country to explain the new approach to agents and answer their questions. A Post Office senior manager and a member of the NFSP Executive Council have shared the platform at each event, with the NFSP showing strong support and adding considerable credibility to the sometimes difficult messages conveyed. Over 550 potential locals have attended the events to date, and the helpdesk (which is providing additional advice) has taken over 4,500 calls. A further 21 workshops are taking place in January. To date, 4,500 agents have completed their retail surveys – over half of the applicable population. This is in line with the volume we expected at this stage, but with the deadline of the end of January approaching we are now sending targeted reminders to encourage the remaining agents to complete the survey (and thereby qualify for their £2k incentive payment). Of the responses received so far, around a quarter have indicated that they want to convert, 45% have asked to leave and the remainder have not expressed a preference at this stage. This mix is in line with our expectations.
- The programme remains on track to meet the original year-end target of 3,000 contracts signed, rather than the lower targets expected as a result of the new strategy. There were 2,458 contracts signed as at 10 January, against the target of 2,420, and we have more than 300 contracts in train with the multiples. There were 1,475 new model branches open on 10 January, so the internal target of 1,950 by year-end remains challenging but achievable. Branch openings booked for January and February are in line with the required beat rate of the mid-30s per week.
- Detailed planning is underway to deliver the commitments we made in our strategy to expand the network with new access points. This has started with an assessment of the commercial priorities for expansion from the perspective of each product team, to ensure we are generating new income rather than just cannibalising it from existing branches. In parallel we have held positive initial discussions with a number of potential commercial partners, including TfL, Network Rail and some large multiple retailers. A separate ExCo sub-group has been set up to oversee both the design and implementation process, and we will keep the Board updated as our proposals develop.

**2. Crown Transformation Programme (CTP)**

- We remain on track to transform 117 Crown branches by the end of this financial year, with 46 completed to date. Over 450 members of staff have attended our two-day training events so far, which focus on the new ways of working in the transformed branches and how to give the best service for customers. Feedback from attendees has been very positive, with satisfaction levels at 95%.
- 26 proposed franchise branches entered public consultation prior to Christmas 2013, with 20 of these consultations now completed. Decisions on 16 of these branches have been announced to staff and the public, with WH Smith the retail partner for 14 of them. The remaining decisions are due to be announced by early February. We have been working

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closely with Consumer Futures to address the questions they have raised regarding each franchise. The re-advertising of 32 of the proposed branches has generated around 150 fresh expressions of interest, and engagement with these prospective partners is now underway.

- An update on the position with the CWU will be provided as part of the separate agenda item on industrial relations, and the latest financial forecasts for the Crown network will be covered as part of the Performance Report.

### 3. Digital and multi-channel programme

- The Christmas trading success of those retailers with a strong multichannel service highlighted the need for us to press on with our own plans for building our digital capabilities. The new mobile optimised version of our website went live on 10 December, and has received 875,000 unique visitors to date. Alongside the release of the first iteration of the new Common Digital Platform in April, we are developing a 'My Account' capability to act as the key customer interaction tool across all channels. This is a critical enabler to us becoming a multichannel retailer in the eyes of our customers, ensuring they feel that they are interacting with a single organisation that has targeted insights into what they want. Initially the tool will be used for accessing our online mails services, but over the next 12-18 months will be extended to provide a single log-in for our full range of new and existing account-based products, and will also be integrated with our IDA solution for government services.
- During February and March we will be launching a number of customer facing multi-channel initiatives in 6-12 branches, including Wi-Fi access, online appointment booking (initially for AEI services) and digital queue booking which provides customers with a virtual ticket with waiting time updates texted to their mobile phone. Handheld devices will be deployed in the trail branches to help provide these services, and we will also be trialling queue sensing cameras to provide managers with real time data to help them allocate resources more effectively and to support the virtual ticketing service.

### 4. Mails

- An assessment of trading performance in mails (and the other product pillars set out below) is provided in the separate Board paper.
- The Drop & Go service has continued to perform strongly, with over 18,000 sign-ups to date (compared with our original full year target of 12,000). The service has generated £1.65m of income over the year to date (28% above target), and is expected to grow substantially in future years supported by a number of initiatives that we currently have in train. These include additional support for branches to help them attract local businesses, advertising through a Post Office hub on the Ebay website (which has already received over 60,000 unique visitors), and targeted offers and promotions for Drop & Go customers which, in time, will be extended to a wider range of business-related products and services. An online account management tool will also be launched by the summer.
- Some teething problems have been encountered with our first Click & Collect client (Lovehoney) due to individual branches being unfamiliar with the correct procedure for processing the parcels (for example in some cases the items have been incorrectly sent

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back to the mails centre). The product and network teams are working together to deploy an urgent action plan to iron out these issues and ensure all branches understand the correct procedures. In parallel, we are also working with Royal Mail to agree 'go live' dates for Amazon, eBay, ASOS and other large potential clients, the timetable for which is larger dictated by their own development windows.

**5. Financial Services (FS)**

- The external profile of the Post Office as a significant challenger bank has continued to grow over the past month. On 13 January we announced that we are extending our current account pilot to a further 81 branches in the East Midlands and East of England, bringing the total to 110 branches. And on 8 January we announced that we will be joining the Help to Buy scheme and increasing the number of branch Mortgage Specialists to 100, to deal with the increasing demand for face-to-face consultations. Both announcements were welcomed positively by the media, and followed the news on 6 January that we had been awarded Best Overall Mortgage Provider, Best Fixed Rate Mortgage Provider and Best Cash ISA in the MoneyNet Personal Finance Awards 2014. Building on this momentum, we will be launching a new marketing campaign from 20 January with TV, press and digital advertising for our mortgages, savings products, home insurance and over 50s life insurance.
- A separate noting paper is provided on our Premium Bonds service, which we may have to terminate in the absence of a new funding arrangement with government. An update on the latest position in relation to the VOA's proposed rating of ATMs will be provided at the Board meeting.

**6. Government services**

- We are continuing to engage with DWP on the future of POCA, both directly and via BIS, with no definitive decision reached at this stage. There is clearly a strong desire from some in the department to preserve their future financial flexibility by not signing up to more than a one or two-year extension at this stage. Our next meeting with DWP officials is scheduled for 16 January, and so we will provide an oral update on the latest position at the Board meeting.
- In the Autumn Statement on 5 December the Chancellor announced that physical car tax discs would no longer be needed from October 2014. While we always envisaged this change over a longer time horizon, this announcement was unexpected (by both us and BIS). This presents us with significant income risks, particularly as DVLA also intend to introduce a Direct Debit option from the same date. We are therefore currently reviewing the provisions in the contract that allow us to renegotiate our prices and service levels in the event of a significant change in government policy, in order to seek to mitigate these impacts.

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## 7. HomePhone and Broadband

- Call Centre performance has been stable since the beginning of December with 77% of calls during the month answered within 20 seconds against an SLA target of 80%. The average speed of answer was 48 seconds. Performance into January has been even more encouraging with daily performance consistently above 80% in all lines of business including technical support. We are closely monitoring technical support as we have seen a 20% increase in HomePhone faults due to the adverse weather, but to date these have not negatively impacted call answering metrics. The level of new complaints continues to decline across all channels, but is still higher than we would like. The backlog of complaints is close to business as usual levels and complaints are being dealt with within agreed timescales. Our focus is therefore now shifting back to pushing up sales, with specific activity to re-engage the branch network in promoting the product.

## 8. Energy

- We have completed a re-evaluation of the full range of options for entering the energy market, taking into account developments in both the political and economic environment since our initial appraisal in the summer. This review has concluded that a white-label approach remains the preferred option in terms of offering the best financial returns and an acceptable risk profile. However, further work is required to develop the detailed operational and commercial model before making a final decision and proceeding to the selection of our supplier. The team expect to complete this work over the next four weeks at which point they will report back to the ExCo and then the Board.

## 9. Project Sparrow

- The mediation scheme closed on 18 November, having received 147 applications. Of those applications:
  - 4 have been rejected by the independent working group as ineligible;
  - 4 have been withdrawn following further discussions with Post Office;
  - 17 are paused as they are the subject of an internal investigation; and
  - 27 full case questionnaires have been submitted for investigation by the Post Office, with 4 of those investigations completed and passed to Second Sight to complete their report.
- The progress of cases through the scheme is likely to be slower than we had initially expected, due in part to the need to refine processes with the independent Chair and Working Group and to learn lessons from early cases. We remain confident that we will have completed the majority of the Post Office investigations in the 2nd quarter of 2014/15, but it is not clear at this stage what proportion of cases will have cleared mediation by this point.
- We are continuing to take steps to maximise the rate at which cases progress through the process, including recruiting and training 22 investigators, quality assuring the reports they write to ensure they are thorough and of a consistently high standard, and working with Second Sight to address capacity issues by relieving them of their responsibilities in

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relation to the administration of the scheme and encouraging them to make their own reports focused and concise. We are keeping the overall progress of the scheme under constant review and timelines will become clearer once the first cases reach mediation, which is expected in March. We are also exploring other options to expedite the resolution of cases and minimise costs, including developing an early settlement policy to identify cases we might settle prior to Second Sight investigation or prior to mediation.

**10. Risk management**

- At the last Board meeting we presented the ExCo's view of the current top ten risks faced by the company. Since then a number of steps have been taken to strengthen our approach to manage these and other major risks. The terms of reference and membership of the Risk & Compliance Committee (RCC) have been reviewed in order to sharpen the focus on practical, rather than abstract, risk matters. This will include monitoring of the top ten risks, stewardship of the organisation's risk and policy frameworks and the ongoing development of an appropriate risk culture. The committee membership now also expressly includes the CEO, and it is envisaged that formal reports from the committee will be a standing agenda item at future ExCo meetings.
- The Risk & Compliance team has been working with the risk owners to produce a more detailed analysis of each of their main risks, identifying both the key causes and the mitigating controls, which will be reviewed at the January RCC. In addition that meeting will undertake a 'deep dive' into the risks of poor customer outcomes arising through mis-selling of FS products. Meetings have been held with each of the ExCo members to identify "quick wins" which could be used to accelerate the embedding of a culture of risk management. Finally, Internal Audit has been brought into the General Counsel area to promote the ongoing links between the second and third lines of defence.

**11. NFSP update**

- Following a review that we suspect was prompted by the CWU, the Certification Officer confirmed on 15 January that the NFSP would no longer be recognised as an official trade union, primarily on the basis that it does not (and arguably never did) meet the required legal definition because its members are not classed as workers. Whilst this decision may cause some short-term noise, in practice we do not believe it materially changes the nature of our relationship with the NFSP as we have always regarded them as an independent membership organisation rather than a trade union. They remain the only body we formally recognise for representing operators' interests in pay and other negotiations. Some NFSP members may choose to cease their membership and join the CWU, but we do not expect these numbers to be large. There are currently only around 200 sub-postmasters in the CWU, so it would require a significant influx for them to be able to mount a challenge to the NFSP's unique status as a representative body.
- We are resuming engagement with the NFSP next week on developing the legal agreement to underpin our long-term relationship, with both sides having agreed to pause this work following the special conference last November. As indicated in the NT section above, we have been pleased and reassured by the NFSP's resolute support since the new strategy was announced.