

# Post Office weekly briefing pack

27 September 2013

The weekly briefing pack is produced by the communications team working with colleagues across the business. It is intended to support the principles in our leadership behaviours around knowing the numbers and working with others.

It is also aimed at providing senior leaders with a core narrative for use with external stakeholders - the Post Office elevator pitch.

The brief is split into sections -

- the elevator pitch, which will be updated weekly as we progress in our strategy;
- the latest financial numbers which are for your personal use to help you understand our progress and challenges;
- updates on live issues affecting the Post Office in the news and beyond; and
- our weekly political report updating you on how the Post Office is being discussed in Parliament

This is a live document and suggestions and contributions are welcome. Please contact Simon Burton in the Policy and Briefing team on [simon.e.burton@postoffice.gro](mailto:simon.e.burton@postoffice.gro)

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## Key Messages - the Post Office elevator pitch

The Post Office is changing. As a commercial business with a public purpose, you will still find us within three miles of 99.7% of the population, connecting communities and providing social value estimated at £2.3 billion. We are still the leading mails retailer and building that key part of our business is a priority in a competitive market.

We have connected communities and customers with the products and services they need for centuries - and that isn't going to change.

But the Post Office is now more than it ever was - an independent multi-channel business, with a vibrant, fast-growing financial services business, separated from Royal Mail and embarking on a new era of growth, modernisation and customer excellence in serving the UK population.

Our business turnaround centres on the largest investment programme in our history to provide a better service for customers: new ways of working, longer opening hours in branches and more convenient and accessible modern outlets. It is a plan focused on a post office of the future which is more financially sustainable in its own right.

There is no longer a closure programme in Post Office branches - in fact, we have the largest retail network in the UK, at its most stable for over 25 years with almost 11,800 branches. Around 18 million customers, including half of all small businesses, visit us every week. More than 1,000 of our branches have been transformed over the past 18 months, with customer satisfaction with the new models at more than 95%. Our network is the heart of what do, connecting customers with the products and services they need.

And we want to grow further: we are a multi-channel business providing more than 170 products and services to our customers but our vision is to deliver more. Our financial services business, for instance, is one of the fastest growing in the UK, with almost 3 million customers, a growing mortgage business and a current account being piloted in 2013. The Post Office, trusted and part of the fabric of our society, is an increasingly credible alternative to the high street banks.

We are also a key touchpoint between the public and government and have a long history of successfully providing essential government services.

And we are going further, setting out a vision which would see us become commercially sustainable through reduced subsidy from the taxpayer.

We are increasing our digital capability, ensuring our customers can access our products and services online, while also introducing world-leading technology to support customer journeys in branch. The Post Office is a key player in the drive to digital, providing physical check steps such as identity verification which are so crucial to ensuring the UK seizes the opportunities of the digital revolution.

As a business we recognise the challenges we face and we know that the path ahead will not always be smooth. We are operating in a tough financial climate and with challenges on the high street. But we have the confidence in our business and its unique role and strengths to know that we can deliver the business transformation of the decade.

### Key facts

- Around 18 million people, including third of the UK's SMEs visit us every week
- In 2012/13 Post Office revenues were up: mails by 4.3%, financial services by 6.4% and telecoms by 7.5%.
- 96% of customers are happy with service in transformed branches where waiting times average below a minute
- 12% increase in retail sales at transformed branches and 31,000 extra opening hours
- Almost three million financial services customers enjoying best-buy, award-winning products

## Knowing the numbers

### Key Financials – Year to Date – Results at August 2013

#### Profit

- Period 5 YTD operating profit was £37.9m, which was £1.5m adverse to budget of £39.4m, and £7.3m adverse to prior year of £45.2m.
- Net Income was £358.5m which was £14.9m adverse to budget and £15.3m adverse to prior year.
- Staff costs were £1.6m adverse due to budget due to bonus adjustments, and £4.1m adverse to prior year due to pay awards, higher pension costs, and increased headcount.
- Agents' costs were £11.8m favourable to budget. £7.4m of this relates to lower sales income. The remainder relates primarily to timing.
- Non people costs were £1.1m adverse to budget, and £6.3m adverse to prior year.

#### Non financials - YTD

- Wait times in branches (less than 5 minutes) were 82.5% which was 4.9% favourable to target.

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### Most recent weekly numbers – week 25

#### Modernisation

- NT contracts signed = **1,850**
- Branches converted = **1,079** (471 local, +2 from last week, 608 main, +25 from last week)

#### Week 25 Income Variance (£m)

- Focus Income (0.21) 94%
- Standard Income (0.52) 94%
- Total Income (Focus & Standard) (0.73) 94%
- Total Income (inc. Fixed, NIS (Variable) and SNP) (0.73) 97%

#### Week 25 Focus Income Variance (£m)

- Financial Services (0.09) 94%
- Government Services (0.01) 96%
- Mails/Retail (0.06) 96%
- Telecoms (0.05) 64%

#### Week 25 Standard Income Variance (£m)

- Financial Services 0.08 103%
- Government Services 0.07 106%
- Mails/Retail (0.66) 86%
- Telecoms (0.004) 78%

#### YTD Income Variance (£m)

- Focus Income (0.41) 99.5% (102% YoY)
- Standard Income (12.73) 94% (91% YoY)
- Total Income (Focus & Standard) (13.14) 96% (94% YoY)
- Total Income (inc Fixed, NIS (Variable) and SNP) (15.83) 97% (99% YoY)

## Live issues - Royal Mail privatisation

### Issue

On 27 September 2013 the Secretary of State for Business, Innovation and Skills announced the expected Offer price range and the commencement of the Offer for institutional and retail investors once an approved price range Prospectus is published. This follows the announcement of the formal intention to float for listing Royal Mail on the premium segment of the official list and the main market of the London Stock Exchange made on 12 September 2013 (*Department of Business, Innovation and Skills Press Release, 27 September 2013*).

### Post Office line

The privatisation of Royal Mail is a matter for the Government. The Post Office and Royal Mail are now separate businesses but continue to work closely together. We have a contractual agreement to provide services on behalf of Royal Mail for some years to come. This close relationship and the contract will continue following privatisation, with both Royal Mail and the Post Office well positioned to take full advantage of the growth in online parcel deliveries.

We are undergoing the largest investment programme in the history of the Post Office by modernising thousands of branches, resulting in longer opening hours and improved environments for customers. Over 1,000 branches have already been transformed. These changes have helped improve retail opportunities for subpostmasters and increase sales. With customer satisfaction in these branches running at over 95 per cent we believe there is cause to be optimistic about the future for the business.

We also continue to introduce new income streams. Our financial services products are proving extremely popular and we are one of the fastest growing providers in the UK with almost three million customers. We have ensured that many of these products result in additional payments to subpostmasters either from in-branch sales or via branch referral fees.

### Highlights of the Offer

- **Expected price range.** The expected Offer price range is set at 260p to 330p per share. Implying a market capitalisation on Admission of between £2,600 million and £3,300 million (*Department of Business, Innovation and Skills Press Release, 27 September 2013*).
- **A majority of existing shares in Royal Mail will be eventually sold.** This does not include the 10 per cent of shares to be made available to around 150,000 UK based Royal Mail staff for free which is in addition to the Employee Priority Offer (*ibid.*).
- **Offer comprises between 401 million and 522 million shares.** This represents between 40.1 and 52.2 per cent of Royal Mail's share capital on Admission – excluding Over-Allotment Arrangements (the 'Base Offer'). Shares representing up to 15 per cent of the Base Offer are being made available pursuant to Over-allotment Arrangements (*ibid.*).
- **Government's holding size.** Following the Offer the Government's holding in Royal Mail is expected to be between 37.8 and 49.9 per cent assuming no exercise of the Over-allotment Option and 30 and 43.9 per cent if it is exercised (*ibid.*).

- **Offer open until 8 October 2013.** Institutional Offer bookbuilding is expected to close at midnight on 8 October 2013. Individuals can also apply either directly or via intermediaries and the last date for receipt of applications is also 8 October 2013 (ibid.).
- **Conditional dealings in the shares on the London Stock Exchange are expected to commence on 11 October 2013.** The Government envisages that around 70 per cent of the Base Offer will be allocated to institutional investors. Unconditional dealing on the Stock Exchange is expected to begin on 15 October 2013 (ibid., *BBC News Website*, 27 September 2013, [link](#)).

#### How the shares will be sold to the public

- **How to apply for shares and conditions attached:**
  - Directly online ([www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares)) or postal application to the Government; or
  - Through participating Intermediaries who will apply for shares on behalf of their clients.
  - Royal Mail employees located in the UK will be able to apply to the Government under the Employee Priority Offer.
  - The minimum application is £750 for members of the public and £500 for Royal Mail staff eligible under the Employee Priority Offer.
  - Under the Employee Priority Offer staff will pay the same price as other retail investors but receive priority on up to the first £10,000 worth of shares applied for, subject to an overall limit of 10 per cent of the total shares offered in the Retail Offer.
  - The share prospectus will be available from around 1,500 Post Office branches from 30 September 2013.

#### The Post Office and Royal Mail following the IPO

- **The Post Office is not for sale.** Royal Mail and The Post Office are separate companies following the Postal Services Act 2011. The Post Office is not for sale and will remain, subject to the Act, in the ownership of the Government (BIS, *Royal Mail: Announcement of Intention to Float*, 12 September 2013, p. 5, [link](#)).
- **The Government has confirmed that it is committed to the future of the Post Office.** There will be no closure programme and they have committed to invest £1.34 billion to modernise the network (ibid.).
- **Royal Mail and The Post Office have entered into a long term commercial agreement.** Under the contract The Post Office sells Royal Mail postage stamps and the Group's retail products to customers on behalf of Royal Mail across our network (ibid.).

#### Post Office branches and the provision of application forms

- **Most applications online.** It is envisaged that the vast majority of applications would be made online. However, BIS has sought a limited number of Post Offices to be available to display boxes from which customers could pick up a physical application form which they would then post in to Government (there would be no counter transaction).
- **Some Post Office branches will hold the application forms.** A network of around 1,500 branches, giving a spread across the country, has been established. This exists

of Crowns and multiples plus branches that have voluntarily confirmed that they would be happy to perform this role.

- **Small payment to branches.** Branches will be paid around £25 per box and will probably have a small number of boxes. Each box contains approximately 60 packs and are to be funded by Government.

### **Potential Hostile Questions**

#### **Q: Is the long term relationship between Royal Mail and The Post Office now at risk as the CWU claim?**

Post Office and Royal Mail are now separate businesses but continue to work closely together. We have a contractual agreement to provide services on behalf of Royal Mail for some years to come. This close relationship and the contract will continue following privatisation, with both Royal Mail and the Post Office well positioned to take full advantage of the growth in online parcel deliveries.

We are undergoing the largest investment programme in the history of the Post Office by modernising thousands of branches, resulting in longer opening hours and improved environments for customers. Over 1,000 branches have already been transformed in the last 12 months. These changes have helped improve retail opportunities for subpostmasters and increase sales. With customer satisfaction in these branches running at over 95 per cent we believe there is cause to be optimistic about the future for the business.

We also continue to introduce new income streams. Our financial services products are proving extremely popular and we are one of the fastest growing providers in the UK with almost three million customers. We have ensured that many of these products result in additional payments to subpostmasters either from in-branch sales or via branch referral fees.

#### **Q: Is the long-term commercial arrangement between Royal Mail and Post Office under threat following privatisation?**

We have a contractual agreement to provide services on behalf of Royal Mail for some years to come. This close relationship and the contract will continue following privatisation, with both Royal Mail and the Post Office well positioned to take full advantage of the growth in online parcel deliveries. As the Minister said in the House, it is unthinkable that this relationship would not continue in the contract.

#### **Q: Does The Post Office's stocking of prospectuses mean you support the privatisation of Royal Mail?**

The Post Office and Royal Mail are now separate businesses. We do however work closely together, providing services on behalf of Royal Mail as part of a long term commercial agreement. This close relationship will continue following privatisation.

#### **Q: Will industrial action in Crown branches affect people getting application packs Monday in England, Wales and Northern Ireland and on Tuesday in some parts of Scotland?**

During previous industrial action the majority of the 372 Crown branches have remained open and we will be working hard to minimise disruption on Monday/Tuesday (during the last strike days over 280 branches we open). Branches will of course be open for business as normal the following day. Around 1,500 branches will stock the packs. The packs will of course be available until 5pm on 7 October 2013. Details of branches stocking the packs can be found at [www.postoffice.co.uk/branchfinder](http://www.postoffice.co.uk/branchfinder).

**Q: It's also a bank holiday in Scotland on Monday 30 September 2013, will it affect people getting their application packs?**

It is a bank holiday in some parts of Scotland on Monday 30 September 2013, however the packs will of course be available until 5pm on 7 October 2013. Details of branches stocking the packs can be found at [www.postoffice.co.uk/branchfinder](http://www.postoffice.co.uk/branchfinder).

## **Other Issues – Horizon update**

### **Post Office Line**

The Post Office is committed to addressing any outstanding concerns among subpostmasters swiftly and transparently.

As part of this commitment we set up an independent review which recently published an interim report which found that so far there was no evidence of any systemic issues with Horizon but did identify some further improvements we could make to our training and support arrangements, which we are taking forward.

The Horizon system has around 68,000 users and processes more than six million transactions every day. The total number of cases put forward by users to Second Sight as part for its external review was 47, less than 0.1 per cent of the total number of users of the Horizon system. We are reviewing our training and support procedures and have established an independent mediation scheme to provide an effective way to assess and address any outstanding cases where subpostmasters feel they have been unfairly treated.

Subpostmasters are the lifeblood of our business and we take their concerns extremely seriously. We hope the measures we are taking will demonstrate our commitment to working closely with them to further improve our network.

### **Mediation scheme progress update**

- 31 submissions into the scheme so far, but not all have been accepted as some still have a BAU process to complete or need to provide more information. Letters are going out to applicants.
- A panel of 14 advisers has been appointed to support subpostmasters going through the mediation process.
- There is a shortlist for the independent chair position and they're hoping to appoint as soon as possible.
- James Arbuthnot MP has emailed his parliamentary colleagues about the scheme.

## **Other Issues – HomePhone and Broadband migration**

### **Issue**

On 31st August – 1st September 2013 Post Office HomePhone and Broadband started the migration of supplier from BT to Fujitsu. This included the transference of customer services helpline and also the webmail/email platform. The migration process has now been completed. Subsequently, some customers have experienced issues with e-mail accounts and the Customer Service Helpline.

### **Post Office Line**

As a result of some changes being made to our Broadband and Phone service we are experiencing some technical issues which is resulting in calls to our Customer Care Line taking longer than normal to answer. We apologise to customers for any inconvenience caused and are working hard to rectify this.

## **Other Issues – CWU industrial action next week**

### **Issue**

The CWU has called for strike action in branches in England, Wales and Northern Ireland on 30 September 2013 and on 1 October 2013 in Scotland. The CWU has also called for further action short of strike action in Crown Post Offices on 1, 2 and 3 October 2013.

#### **Post Office Line**

The CWU are calling for an above inflation pay agreement when last year our overall performance was a loss of £116 million; we must reverse this loss of public money. Strike action can only cost our people money, cause disruption to customers and threaten our plans to turn the business around and keep our branches on high streets and in city centres across the UK.

They have refused their members a fair and affordable pay offer of cash payments totalling up to £3,400 by April 2015, and are failing to recognise the financial realities faced by the Crown network. The CWU's call for its members to stop proactively introducing financial services to customers is extremely irresponsible. The proactive sale of our growing range of products and services is a vital part of transforming the network and meeting our objective of getting the Crown branches to break even by March 2015. We would like to reassure customers that they will be able to continue to access all services from our branches.

This action will not affect over 97 per cent of the Post Office network and the majority of Crown branches have remained open during previous strike action.

## **Other Issues – Post Office pension scheme**

#### **Issue**

The CWU has written to the Post Office branches as they are unhappy with the recommendations made for changes to the Pension Plan.

#### **Post Office line**

We understand how important our pension scheme is to employees and we are disappointed by the CWUs response to our proposals which are designed to keep the Pension Plan open whilst many companies are closing theirs, and at the same time ensure that contributions and benefits remain unchanged for the Plan's members.

We met with the Trustee (26 Sept 2013) and they have asked for more information, which we will be providing them. We will continue to work with the Unions and Trustee to ensure we have the best possible solution to provide a sustainable pension plan.

## Post Office – Weekly Political Round Up

### The week ahead

**Westminster** – The House of Commons is in recess for the Party conferences. The House of Lords remains in recess following the summer. The Conservative Party conference takes place in Manchester.

**Devolved bodies** – There is no Post Office related business.

### The last week

#### Labour Party Conference

#### **Post Office Activity: Details of The Post Office’s activity at the Labour Party Conference in Brighton.**

At the Labour Party conference this week we jointly hosted two events, both addressed by Mark Davies. A private roundtable brought together Ian Murray MP, Shadow Postal Affairs Minister, Dan Corry, former No.10 advisor, the NFSP, Danielle Barnes, Sub-postmaster for Port Clarence Post Office and others to debate our support for local communities.

Mark shared a platform with Jon Cruddas MP, Labour’s policy review co-ordinator, at a fringe meeting to explore how Post Office branches can help bring together local communities and digital technologies.

In addition, Post Office’s Jane Hill and David McConnell took part in a Fabian Society roundtable that included George Thomson, General Secretary of NFSP, Ian Murray MP, Andy Fury of the CWU and Peter Hain MP during which Royal Mail privatisation and its relationship to the Post Office was hotly debated. As expected, Royal Mail privatisation featured prominently at the conference, with CWU staging a well-attended fringe meeting, addressed by NFSP, and delegates debating two motions on the floor of the conference.

Next week Post Office will be attending the Conservative Party conference in Manchester, again hosting two events including a fringe meeting with Nick Hurd MP, Minister for Civil Society, Cabinet Office.

## Scottish Parliament

#### **Oral Answer: Alex Salmond MSP is questioned on plans to renationalise Royal Mail in an independent Scotland – 26 September 2013.**

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** To ask the First Minister whether the Prime Minister has responded to his letter calling for a moratorium on the privatisation of the Royal Mail. (S4F-01587)

**The First Minister (Alex Salmond):** I am disappointed that I have not yet heard from the Prime Minister. It is clear that the people of Scotland resoundingly do not want this misguided privatisation and that the moratorium should be confirmed as soon as possible.

**Stewart Stevenson:** It is surprising that the First Minister has not had a response. Yesterday, Labour Party members, at their conference in Brighton, overwhelmingly backed

a resolution that called for the renationalisation of the Royal Mail should the sell-off go ahead. Will the First Minister urge Mr Miliband to back the position of the Scottish Government by publicly endorsing the views of his party, which could render the privatisation infeasible?

**The First Minister:** It is true that I have not had a response from the Prime Minister, but I seem to have got a response from the Labour Party conference, which is all to the good. Now that, after six months, the Labour Party has followed the Scottish National Party policy of repeal of the bedroom tax, we should welcome the Labour conference's endorsement of our call to take the Royal Mail back into public hands.

I am told that the resolution was passed overwhelmingly. I hear that it might even have been passed unanimously. I presume that that means that the Scottish delegates at the conference, such as Johann Lamont, voted for the renationalisation of the Royal Mail. [Interruption.] I do not know why Johann Lamont is pointing; I am just saying that if the resolution was passed nearly unanimously, I assume that she was there, speaking for the majority wishes of the unions and Labour Party members. That makes the attacks that I had from MSPs following First Minister's questions last week all the more strange. So, which is it: the response to public ownership that we saw so resoundingly from the Labour conference, or the back calling at the SNP that we saw from Labour MSPs last week? (*Scottish Parliament Official Report*, 26 September 2013, [link](#)).

## Northern Ireland Assembly

**Written Answer: Paul Frew MLA asks about local bank branches being closed – 25 September 2013.**

**Mr Paul Frew MLA (DUP, North Antrim):** To ask the Minister of Enterprise, Trade and Investment what further plans she has to reverse the trend by local banks who have closed local branches and reduced services in those that remain open.

**Arlene Foster, MLA (Minister of Enterprise, Trade and Investment):** I have been concerned at the branch closures announced in recent times, and in particular the impact of this in rural communities. The DFP Minister and I raised the issue of rural access with the main banks in Northern Ireland as part of our ongoing series of meetings with banks.

In addition, the Consumer Council for Northern Ireland (CCNI) have requested the Northern Ireland Select Affairs Committee enquiry into the Northern Ireland Banking Structure consider the overall impact of bank branch closures on local communities. They also suggested to the Committee that Banks should offer face to face support to customers on the alternative services available from the bank and other alternative options such as **Post Offices** and that all banks should offer basic current account facilities in **Post Offices**.

The Consumer Council has also published a Personal Current Account Manifesto. This sets out the key priorities consumers have with daily banking services and they are working with the banks to address these consumer concerns. The Consumer Council is also a member of the recently formed British Bankers Association Consumer Panel and have raised the issue of bank branch closures at this level and have been successful in ensuring the issue is included as an action in the work plan going forward (*Northern Ireland Assembly*, 25 September 2013, [link](#)).