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**POST OFFICE LTD BOARD****Chief Executive's Report****1. Mails**

- Following a successful month-long consultation, the new shoebox sized parcels format will be introduced into our branches on 28 October, in time for the critical pre-Christmas period. This will enable significantly more items to be classed as small rather than medium parcels, and is expected to enable us to recover around half of the volumes lost since April's price changes and generate additional income of around £3m over the remainder of this financial year. The launch will be supported by a specific online and in-branch marketing campaign to promote awareness of the new format.
- The Drop & Go customer base has continued to grow rapidly following the roll-out of the service to the entire network at the end of July and the launch of a 20% price discount on small and medium parcels at the start of September. Given the success of this promotion over the first month we decided to extend it by a further three weeks to run until 20 October, driving over 8,000 customer sign-ups during the campaign period alone. We now have over 14,000 customers, having set a target at the start of the year to reach 12,000 by the end of March. The service has generated income of around £0.8m over the year to date (111% of the target by this point), and this figure should grow to in excess of £4m pa in future years. The customer dataset is itself a valuable asset for the business, and we already taking opportunities to use it to deepen our relationship with these customers and to support our longer-term work to build an SME CVP.
- Following the successful joint pitch with Royal Mail at Kingston Post Office last month, Ebay has now indicated that they would like to work with us on developing a returns proposition to be rolled out across the network from April 2014. This could be a significant source of additional revenue and footfall, giving us access to a share of Ebay's projected returns volumes in excess of 20 million items per year.

**2. Christmas campaign**

- Christmas is a vital time for the Post Office brand with 37% of our annual mail volumes generated during the 8 weeks leading up to Christmas, 5 million extra branch visitors per week and a 15% increased penetration of 'once a year' high income individuals. Following the successful campaign last year, during the course of October and November we will be rolling out a number of specific initiatives to improve our Christmas service and drive higher value mail volumes. Specific measures include extended opening hours across 1,500 branches; the deployment of staff from central teams in 300 key branches during the busiest 8 days of Christmas, supported by the recruitment of 41 young people on paid work experience placements; the launch on 11 October of a specific 'Christmas help hub' on our website; a mobile 'pop-up' Post Office visiting eight key retail locations across the country; and a 'Christmas in a box' which provides a complete Christmas kit for branches. We are underpinning these measures with an integrated marketing, PR and internal engagement campaign to raise the profile amongst customers and staff.

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### 3. Financial services (FS)

- The new FS sales and supervisory structure is now operational. There are 274 Financial Specialists in the network, and by the end of October we will have 30 (out of 35) FS Area Managers in place and will have recruited 80-90 (out of 100) Mortgage Specialists. All Mortgage Specialists will complete Mortgage Market Review (MMR) training to ensure we are meeting our regulatory requirements when the new regime comes into full effect in late April 2014. We have begun the roll out of the new sales process, which focuses on understanding customers' needs and is supported by a new incentive scheme covering Mortgage Specialists, FS and Crown Area Managers and FS and Crown Regional Managers (these are all CMA grades). This is expected to drive significant behavioural change and has been approved by the Bank of Ireland to ensure that we meet regulatory requirements. The new incentive scheme for Financial Specialists is being developed and is targeted to be deployed in January 2014 (although this would normally be expected to be subject to successful engagement with the CWU).
- Our current account pilot is continuing, with 1,541 applications and 783 accounts opened up to the 23 October. We are ramping up our press and marketing activity following the launch of the new industry wide account switching service in September, including by offering a £50 Post Office gift card by way of incentive. In order to help address the higher than expected number of customers failing to meet the identity and anti-money laundering requirements, we have now deployed one of the most extensive ranges of permissible ID documents in the industry. However, we are continuing to experience a sizeable proportion of customers being unable to provide the necessary ID verification. We are therefore considering expanding the proof of concept into adjacent areas to target a wider segment of the population, particularly younger workers.
- To support the Bank of Ireland manage its balance sheet and meet its regulatory commitments, we have actively assisted in bringing the deposit book down from £18.5 billion in January 2013 to £16.0 billion. However, the Bank has acknowledged that we should not be overly exposed to the downside risk of these changes, and has therefore agreed to underpin our income until the end of 2014/15. We are also jointly developing plans to move into simple investment products, which will reduce our reliance on the Bank's balance sheet for savings growth.

### 4. Government services

- A paper on POCA is provided as part of the separate agenda item on 'Project Maypole'.
- Following the signing of the first call off under the Identity Assurance (IDA) framework contract at the end of August, the Cabinet Office has confirmed that we and our supplier Digidentity have passed their 'identity proofing gate', which is a mandatory requirement before being able to launch the live service. We understand that we are the first of the identity providers to have passed this gateway, despite the other three starting the process before us.
- Less positively, the Cabinet Office has informed us that they are delaying the launch of their procurement process for assisted digital services from this month until early next year, to give themselves more time to define their requirements. In the meantime we are continuing to target key Ministers both directly and through BIS to highlight our unique

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capabilities to support the Digital by Default agenda, as well as engaging officials in relevant departments such as DWP (in relation to Universal Credit).

- We demonstrated our proposed passport renewal service to Mark Harper, Minister for Immigration last month, who was very positive about the initiative. HM Passport Office (HMPO) has now formally started a Digital by Default programme, and we are now working closely with key officials in the agency to develop the services that we could provide as part of this. Separately, following a successful trial in London over the summer we have begun preparations for a new seven day check and send passport service to be launched across the country by March next year.

## 5. Home services

- Performance in the call centre for HomePhone and Broadband customers has improved, with the average waiting times reduced from a range of 10-15 minutes in mid to late September to the current range of 5-10 minutes. However, this is still well below the standards that we require (particularly for the technical support line), and the rate of improvement in performance levels is also below our expectations. We have therefore communicated our concerns to senior Fujitsu executives in the strongest possible terms, and are holding them to account in the delivery of their improvement plan on a daily basis. To date 60 additional agents have been recruited in the call centre front office and a dedicated team has been created to deal with billing queries. An additional 26 back office agents have been deployed to reduce pressure on call answering and to deal with customer complaints. Fujitsu has committed to deploy further significant additional resources over the next couple of weeks to drive further performance improvements, and we are challenging them to accelerate this process. We will provide an update on the latest situation at the Board.
- Our confidence in Fujitsu's ability to support the delivery of our mobile proposition has also deteriorated over the past month. Having given them an opportunity to address the shortcomings that we had identified in both their overall approach and the personnel leading the project, we have now decided to disengage with them for a four week period while we consider our alternative options. In particular this will give us an opportunity to engage directly with EE who are currently sub-contracted with Fujitsu to deliver the proposition. We are still working towards the current timeline of launching the service in summer 2014, and our market research to date has validated the revenue assumptions included in the strategic plan.
- A paper will be submitted to the November Board on our proposals to enter the energy market. This will provide an update on our current short-listing process to identify our preferred providers for the next stage of commercial dialogue, and will also include our latest assessment of the options and issues associated with entering the energy market, including those related to pricing, reputational/brand risk (particularly in light of the current political debate on the topic) and regulatory compliance.



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## 6. Network Transformation

- Including the 98 branches covered by the WHSmith agreement, we have now achieved 2,075 contracts signed (as of 23 October), and remain ahead of our target at this point in the year. However, it is clear that many agents are holding back from making commitments as rumours about an improved offer have spread widely, partly as a result of the NFSP needing to prepare the ground with members for a conference in the coming weeks. In practice signing a contract now would make no difference to most people, because the arrangements for Mains are not changing and for Locals the agents would still be eligible for the new terms if they sign now. However, the field teams are of course unable to talk about the details of the deal at this stage, and so are doing their best to keep agents warm with general reassurances. We had already factored in such an effect into our revised targets for the year, so we still believe that we can achieve 3,000 contracts signed by year end provided the new arrangements can be announced by December at the latest (a separate Board paper will be circulated providing an update on discussions with the NFSP). The improved offer for Locals in particular should help secure a significant number of multiple contracts in the fourth quarter.
- The beat rate for branch openings has increased from 20 in July and August to an average of the high 30s from through October and November. However, the programme remains behind target, with 1,218 open as of 23 October. Achievement of 1,950 branches open by year-end is at significant risk but is still possible, requiring 35-40 branch openings a week. Although this rate is being achieved at the moment, we anticipate a slow-down in December so a major effort is being made to achieve an even higher beat rate in Q4. Every branch with a good chance of opening this year is being closely managed by a fast-track team to resolve issues in the minimum time. Good progress is also being made with the trial to use our own suppliers for building works. We are expecting the first openings from this trial group of 80 branches shortly after Christmas. As well as helping with this year's target, the experience of using our contractors will establish how that approach can improve the opening rates in future years.

## 7. Crown Transformation Programme (CTP)

- An update on the latest full year P&L projections for the Crown network will be provided as part of the performance report, and there are also separate agenda items on the economics of the Crown network model and on the industrial relations situation.
- We remain on track to deliver 45 branch transformations by Christmas and 117 by the end of March, with the first branch in the current tranche, Dingle, completed last week. Public consultation has commenced on the 'two into one' merger of the Islington and Highbury Crown branches into a new site located between the two existing branches. We have now announced plans to franchise 18 branches, subject to the normal 6 week consultation period, including the 16 covered as part of the WHSmith deal and two further agreements with independent retailers in Ballymena and Littlehampton. We are currently working with interested parties for a further 17 branches which have the potential to franchise this financial year.

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**8. Project Sparrow**

- The Mediation Scheme has received 64 applications from sub-postmasters since it was opened at the end of August, with more expected before the deadline of 18 November. The Working Group overseeing the running of the scheme is now reviewing these applications to decide which should be accepted onto the scheme, which should be excluded and which require further information before a decision can be made. The aim is to get a few cases started on the mediation process before the end of 2013 with the majority happening between January and March next year. Sir Anthony Hooper has now been appointed as the Chair of the Working Group, and will lead his first meeting on 25 October.
- We are in the process of developing our internal settlement policy for the scheme, the purpose of which is to ensure that a consistent approach is taken to each case based on a clear understanding of the potential range of costs and outcomes from the process. A first draft will be discussed by the ExCo in November, although it will be subject to further refinement in light of the additional information that emerges about the caseload and our initial experiences of the full mediation process.
- Our external firm of criminal solicitors, Cartwright King (CK), has now completed a review of 301 cases subject to past prosecution to identify whether we have a duty to disclose the findings of the Second Sight report and associated issues. CK has concluded that disclosure is appropriate in 10 of these cases, and a short letter has therefore been sent to each of the defence teams to bring their attention to the report. It is now a matter for the defence in each case to determine what action, if any, they might take in light of this additional information. We are also awaiting an unknown number of further historical prosecution files from Royal Mail, although at this stage we have no reason to believe these will substantially increase the number of actual disclosures. In view of the potential interest from the Criminal Cases Review Commission, we have also asked our criminal barrister, Brian Altman QC, to conduct an independent review of the overall process we have taken to review past cases, reaching the conclusion that our approach is "fundamentally sound".
- We will submit a paper to the November ARC reviewing our overall policy for investigating and prosecuting future cases. This will be informed by a separate report that Brian Altman is preparing on the effectiveness of our current prosecutions approach from a criminal law perspective, but will also take into account wider business considerations such as value for money and reputational impacts.
- The first stage of the workstream looking at improvements to our sub-postmaster training and support processes will be completed in November, identifying the key gaps and shortcomings in our current approach, a detailed plan for delivering 'quick wins' and an overarching plan for taking forward the more fundamental reforms to our organisational structure and culture over the next 6-12 months. The process will be informed by the new Branch User Forum, the inaugural meeting of which will be convened in November once the recruitment process for sub-postmasters has been completed.