

Post Office Board Meeting – 22 January 2016

Speaking Notes

CEO Report

Overall

- Welcome to Carla and Ken
- Positive P9 sets us up for Q4 and end of year.
- However, the we continue to face a number of challenges in order to capitalise on the progress made to date eg markets, industrial relations and IT transformation.

What has gone well

P9 Performance

- Very pleased to have had a positive Christmas Peak period
- Mails performed well over the peak period with higher volumes across most products, trading above forecast and last year.
- Sustained customer activity after the last posting dates provides further evidence of a later Christmas peak – demonstrates we were right to open on Christmas Eve.

Customer Service

- Also pleased that we maintained our customer service levels despite the peak trading period.
- We are looking to learn lessons from what went well and where we can improve further to apply next year (through eg the Christmas Maker survey and feedback).

Background

How do we measure NPS?

- NPS is based– on a scale of 0-10 – on those answering 9 or 10 (promoters) *minus* those answering 0-6 (detractors) to give an NPS score from statement ‘I am likely to recommend the Post Office for [reason for visit] to friends, family or colleagues’.
- That is to say, the questionnaire script pulls through customers’ reason for visit in how they are asked the recommendation (NPS) question. The score is then aggregated up from all responses.

What were all scores vs LY?

- This year’s targets are based on last year’s scores. For Effort and NPS, scores are up markedly vs. last year (see table).
- Customer Satisfaction and is 1pp below last year’s score, and Wait (% served inside 5 mins) is 2pp below last year’s performance.

Do we ever think we will hit our agency targets?

- YTD Agency is on or ahead of target for Effort, NPS and Wait time.
- YTD, Customer Satisfaction is just 1pp below annual target, so we are optimistic that all targets will be achieved.

Is there any evidence to support the theory that Crowns hit theirs because of Christmas Makers?

- We believe that Christmas Makers helped Crown hit targets but we are doing a deep dive into Christmas performance, including the impact of Christmas Makers.

- This will be delivered to GE in February.

KPIs	SOURCE	CURRENT PERIOD (P9)	LAST PERIOD (P8)	YTD	P9 TARGET**	2015/16 Target
Effort (% saying Post Office is Easy to do business with) <i>[bonus measure]</i>	VOC	65%	69%	66%	62%	64%
NPS	VOC	+61	+64	+62	+55	57%
CSAT (Top 3 Box)	VOC	85%	89%	88%	86%	87%
Wait time (% served inside 5 minutes)	VOC	69%	81%	78%	71%	78%
FS NPS <i>[bonus measure]</i>	FS NPS survey	+26	+30	+27	+25	+25

What has not gone well

- Although overall performance in P9 was good, there are still some areas where we need to improve, notably mortgages and savings.
- The new lottery game is also performing poorly, although this is in line with the wider market following Camelot game changes.

Background

Mortgages

- Q4 campaign - Significant marketing spend to drive awareness of PO Mortgages through Q4 including activity at a local level to support MS branches. This will start towards the end of January with the aim of driving significant sales.
- Hub and spoke - We plan to roll-out to 120 branches including a refresh of all tablets with a new anti-virus solution by the middle of Feb. Target objective of 2 mortgage leads generated per Agency branch per week equating to circa £560K additional Net annualised Income from 120 branches.
- Further roll-out restricted until a strategic tablet solution can be implemented, the feasibility study from Atos is due at the end of Jan at which time a plan for replacement of current tablets & further roll-out can then be agreed.
- New online customer journey - To improve customer retention on website and lead generation to branch/contact centre – updated website was launched earlier this month.

Savings

- Q4 campaign - Activities include up-weighted digital, expansion of aggregators, introduction of display for branch products, biddable social, press, POS branch campaign throughout Q4 and a Savings direct mail/email to (15.5k customers)

- Key Savings market approaching – Q3/4 high fixed term maturities & mid-Feb start to ISA season - Opportunity to capture greater market share by focusing marketing & network staff around natural churn times when savings are front of mind for many customers.
- Analysing top Agency branches for savings in the last 5 years to aid Network selection of locations for 500 savings product champions in Q4.
- Growth Bond/Fixed Rate ISA/Online Saver and Online Bond are now back on sale

Opportunities

Banking Framework

- Headline confirmation has been received from Lloyds, Santander, HSBC, Danske, Nationwide, First Trust, Bank of Ireland, TSB, Metro and Virgin that they intend to join the framework and all meetings (both between Post Office and each bank, as well as internally within banks to ensure Governance timelines are met) are being set up with that direction in mind.
- Post Office have now been invited to join wider BBA/Bank steering group addressing additional requirements from the Access to Banking Protocol – the implementation phases – indicating wide acceptance that Post Office plays a major role in the delivery of the Protocol by banks.

Background

- Specific questions at the Board were focussed on ensuring a ‘no regrets’ decision to proceed – no unexpected impact on network or supply chain.
- Board commented positively regarding the business case, financial modelling, issue explanation and resolution and engagement across wider Post Office groups (Network and supply chain specifically) to underpin the ‘no regrets’ decision.

Barclays and RBS (not named in update list above)

- Engagement with Barclays continues – with new services planned for March and April, linked to the Framework. Governance meetings are being arranged.
- RBS have requested clarification around Termination dates covering their most recent contracts – this is in hand. Meetings with RBS are being arranged to resolve the issue, and GE have been briefed.

SGEI Consultation

Background

- We understand the draft consultation paper is still going through internal, BIS and wider Government clearance processes.
- We do not know a date of publication yet.

[Suggest any questions referred to Richard Callard]

Risks or Concerns

Budget

- We have a discussion this afternoon where there is an opportunity to take your input to help shape next year's budget and the revise three year plan.

Interim Report

- We remain on course to publish next week.

Industrial Relations

Crowns

- Staff in all 42 affected branches (3 proposed closure, 39 proposed franchising) were briefed face to face on Tuesday morning.
- Media interest was very low despite hostile press statements from both our unions – we had briefed all MPs and other stakeholders in advance.

Pensions

- Our plans are now in place to support the consultation which includes sustained communications to all staff – this is a complicated issue and we need to do everything we can to help them understand it.
- This includes face-to-face briefings and a dedicated phone line and website. We are therefore still on track for the proposed scheme closure date of 31 August this year.

Pay

- The current CWU Crown pay deal expires in April of this year, with pay for all middle managers up for renegotiating in June. The team are prioritising this work so we can be ready to start talks early (i.e February for CWU) if necessary.

Supply chain

- There is an update on supply chain as our next agenda item.

CWU

- I have spoken to Dave Ward, the General Secretary, since my update and he has now formally confirmed a meeting for early Feb.
- I am clear that we want the agreement to work but will not accept the CWU continuing to ignore it.

Background

Meeting with the Chairman

- Tim has been provided with a 'Deep Dive' briefing pack on IR and the team have a session with him on this in early February.
- The team would be very happy to answer any questions and/or brief Board members (particularly those new to the business).

Pay

- Supply Chain and CWU admin grade pay deals run to March 2017.

Contingency in Call Centres

- For St Helens, we deploy staff from elsewhere in SST. Majority can be remotely using our telephone system but a few need to be on site. (NB On Christmas Eve service levels actually went up slightly when we deployed.)
- For Dearne, we would use the agency staff already in place (8 in POEX & 14 in NBSC); the managers in both sites and then draw on local managers to cover any gaps.

NFSP Relations

- Our team met with George and Ian last week. The meeting was constructive and explored solutions.
- The NFSP's core position of requesting postponement to certain business activity and a significant additional payment for postmasters has not changed but they have agreed to invest more time in discussions and are not threatening an immediate withdrawal from the grant agreement.
- We have made it very clear that they must not make any assumptions that a payment will be forthcoming or that our commitment to discussions should be taken as such.
- Both parties recognise that this is likely to still cause difficulties - but equally that the best chance we have is to resolve the other issues in order to get through this.
- They have now also formally requested the payment due for the annual grant.
- Our assessment is that this should be paid (which has always been our stated position and intention) – in addition to the fact that if we did not we would be in breach of the agreement ourselves, we believe that this is the right action on our part to ensure these discussions continue and we maintain a good relationship with NFSP through final phases of NT.
- The significant milestone of the removal of fixed remuneration for any branch that has not engaged with the programme is due shortly (which has a significant financial benefit and also the most likely aspect that will be challenged) and maintaining a good relationship with NFSP through this has to be our preferred approach.
- That said, in reality, in the short term our objectives and theirs are not fully aligned. In fact the opposite is almost true: they want more money for agents now (without a business rationale) and we are seeking an opportunity to reduce the agent remuneration bill next year and also to reframe the total agency proposition longer term.
- This remains a very challenging situation.

Conclusion

- As I said, at the beginning, I am encouraged by our P9 performance but I do not underestimate the challenges ahead.
- As well as those I have touched on in the report (eg markets, IR), we have an update on Project Trinity this afternoon which is central to our IT transformation.

Additional Information

POCA

The successful selection by both Bidders of their banking provider remains challenging. The withdrawal, on Monday 18th January, of Shawbrook (ATOS) and of Virgin Money (HP's preferred option of their 4 Bidders), the need to ensure acceptable SYSC8 (FCA regulatory requirements) and the lower than the projected Bank of England interest rate means a continued uncertainty about a successful outcome to the POca Procurement and our ability to deliver the £28m of contracted savings under the DWP Call-Off Agreement. The project is actively engaged with both Bidders to resolve matters in what is a fluid situation.

Specifics

ATOS - are actively pursuing an alternative Bank and an update is expected from them by the end of this week.

HP - are meeting with Banks this week and an update is expected from them when we meet with Dominic Arcari (HPE Exec level) on Monday 25th in Finsbury Dials. Our objectives of that meeting are to 1) understand their Bank Status and 2) their appetite to continue bidding if they envisage further delays: clearly we will be encouraging them to bid.

Other

- the project is working on the basis that it will resolve matters to enable the release of the final tender in a timescale which results in a presentation of the Recommended Preferred Bidder to the March Post Office Board together with the Business Case for the implementation of POca and POca Innovation.
- An engagement with Berkeley Partnership will take place. They will be tasked with 1) reviewing the impact of the POca Innovation on our business and 2) an assessment/review of the contingency options in the event both Bidders withdraw from the POca procurement.

Sparrow

Chairman's Review

Jonathan Swift QC and Christopher Knight, the barristers advising Tim Parker on the adequacy of Scheme processes, shared their draft report with the POL Chairman last week. The report sets out a limited number of recommendations and POL will, where possible, take these forward to demonstrate the highest possible standards of rigour and fairness in the handling of the Horizon related complaints.

CCRC & Possible Litigation

We understand that we are unlikely to hear anything substantive from the CCRC until at least mid to late 2016.

JFSA has instructed Freeths' Solicitors and Henderson Chambers to prepare civil litigation action against the Post Office. However, despite POL writing to Freeths requesting that they clarify the situation, a Letter of Claim (which would represent the starting gun in terms of actual proceedings) is yet to materialise.

BBC

POL has escalated its complaint about the August Panorama Broadcast to the BBC Editorial Complaints Unit, which reviews complaints independently of the programme makers, having received inadequate responses to our previous correspondence.

Mediations

As at 20/01/2016, 40 cases have been resolved, 21 of which have been resolved through mediation. The remainder were resolved either prior to Scheme entry (10), mid Scheme (5) or prior to a mediation meeting taking place (4).

In total, 42 mediations have taken place to date, with 50% of these being resolved. A further 4 mediations are scheduled to take place between now and 17 February 2016, at which point, from an operational perspective at least, the formal and Applicant-facing part of the Scheme will come to a close.

Crowns and Franchising

Our lines to take

Q. The Post Office has previously committed to 'no closures' but you are now clearly no longer ruling closures out so what does this mean for the future?

A. This is about making changes in the way we provide our services in some locations, which we have to do in a sustainable way in order to protect them for our customers. We have always stressed the importance of overall, convenient access to our service for our customers and we have to reflect the way that customers want to do business with us, which has changed and will continue to change.

Our plan for the vast majority of the 42 Crown branches where we have announced we need to make changes is to secure franchise agreements to provide services. That's not 'closures'. We have been successfully franchising for many years and it brings benefits for the business without compromising on our services to customers – frequently bringing customer benefits in fact, such as longer opening hours.

There are 3 Crown branches from the 42 where we have said we propose closure – but in two of these locations (Antrim and Barry), we are advertising Post Office opportunities in the event that a retailer in the area would like to offer our services, in addition to the full service provision already available in these areas.*

In Shaftesbury Square in Belfast, there is, quite simply, no longer a need for the Crown branch – there are 11 other Post Office branches within a two-mile radius, with another Crown branch, Belfast City, around a mile away.

*In Antrim we announced three years ago that we planned to franchise and we are continuing to seek to secure this, but we cannot sustain the Crown branch indefinitely.

In Barry, the area is well served by Post Office branches with another five within a two-mile radius and, whilst we are confident these will be able to absorb the extra business, we are also open to applications from other retailers in the area to provide Post Office services.

Detail on 3 closures

ANTRIM-2 branches within 1.4 miles

BARRY-2 branches within approximately 0.5 miles and a further 2 within approximately 1 mile

SHAFTESBURY SQUARE-3 branches within approximately 0.5 miles and a further 2 within approximately 1 mile, one of which is Belfast City Crown.

Misfeasance (ref email from AI, advice from Piero)

Summary

- 1) There has been an instance of a claim being brought against individuals for misfeasance in public office. The claim was not successful and note the statement that “the claimant had failed to establish that the individuals acted with targeted malice or bad faith and they had not caused any recoverable economic loss to the claimant”.
- 2) There has been a claim for misfeasance in public office which related to a procurement (the Harmon case referred to below). However it was a claim against the corporation, not the individuals. The judge did note that claims for misfeasance can be brought against individuals.
- 3) In the Harmon case the corporation was found to have committed the tort of misfeasance in public office and the remedy for the claimant was damages (detailed in the note below).

(1) Have there been instances of people being prosecuted for misfeasance in public office?

We have found an example of a case where individuals themselves have been pursued for misfeasance in public office (but not in the context of public procurement). The case of ***Romantiek BVBA v Geoffrey Simms, Peter Allsopp, The Department of Transport [2008] EWHC 3099 (QB)*** involved a claim against two individuals for misfeasance in public office. The Department of Transport was also joined in the proceedings on the basis that it was vicariously liable for the tortious acts of the two individuals, one of which was a traffic commissioner and the other of which was a compliance group manager.

The claimant in this case, a road haulage company, was unhappy and felt that the individuals had been damaging their business reputation by inferring to contractors that they were assisting the claimant in illegal operations. The court held that the two individuals had not committed misfeasance in public office as the communications they made to the third party companies were lawful. Furthermore, the claimant had failed to establish that the individuals acted with targeted malice or bad faith and they had not caused any recoverable economic loss to the claimant.

As the tort of misfeasance in public office is a relatively new tort which is continuing to evolve, the law remains unclear in a significant number of areas. The case above shows that individuals may be made liable as well as public bodies for the tort of misfeasance. Although to date we have not located any cases in which individuals have been successfully prosecuted and made liable for damages for misfeasance of public office, this is no guarantee that the courts may not find individuals liable in the future. That said, you will recall that the view of Sarah Hannaford QC when we consulted her in December was that “***Whilst it is a theoretical risk to individuals, claims are generally against the public body for obvious monetary reasons***”.

(2) Have any of those instances related to public procurement?

The case of ***Harmon CFEM Facades (UK) Ltd v The Corporate Officer of the House of Commons [1999] All ER (D) 1178*** involved a claim for misfeasance in public office relating to public procurement. This was the only case we were able to locate which relates specifically to public procurement and which may be relevant to Post Office.

The defendant in this case was the Corporate Officer of the House of Commons (“HoC”), a corporation established by the Parliamentary Corporate Bodies Act 1992 (not an individual). However, it is worth noting that there are comments in the judgment which suggests that individuals could be prosecuted for misfeasance in public office in the context of public procurement.

In the *Harmon* case, a European-based firm tendered for the works contract relating to the provision of windows of a new parliamentary building for the House of Commons. The bodies responsible for awarding this contract (the Parliamentary Works Directorate and the Accommodation and Works Committee) wished for as much work as possible to be allocated to UK firms. Following numerous tendering processes, the contract was indeed awarded to a UK firm. The European-based firm brought an action including a claim that the HoC’s officers had committed a breach of the tort of misfeasance in public office in deliberately favouring the UK firm’s tender. The court held that the HoC acting in its capacity as the authority responsible for procuring the construction of the building was a public authority or person holding public office so that it was capable of committing the tort of misfeasance. The HoC committed this tort by failing properly to conduct the tender process. No individual officers were found personally liable in this case.

(3) If so, what were the legal penalties?

In *Harmon CFEM Facades (UK) Ltd v The Corporate Officer of the House of Commons [1999] All ER (D) 1178*, the court ruled in favour of the claimant (Harmon) and awarded the following damages: £221,108 on account of wasted tender costs; £1,848,456 on account of the loss of margin and profit; and £1,307,031 on account of the claimant losing the chance of being awarded the contract which was ultimately carried out by another contractor. The court also considered aggravated and exemplary damages but decided not to award any of these as the conduct of the corporate officer at the HoC had not been directed to ensuring Harmon’s failure but instead to securing the successful tenderer’s success.